

**MONITORING, VERIFICATION AND EVALUATION UNIT
AGRICULTURAL POLICY REFORM PROGRAM**

**MVE UNIT
APRP**

Sponsored by:

**Government of Egypt,
Ministry of Agriculture and Land Reclamation**

**United States Agency for International Development/Egypt
Office of Economic Growth, Competitiveness and Agricultural
Development Division**

**PROGRESS IN THE
PRIVATIZATION OF
THE RICE AND
COTTON
SUBSECTORS,
1995/96-2000/01**



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Subcontractors:
**Environmental Quality International,
Management Systems International**

July, 2002

USAID Contract No. 263-0219-C-00-7003-00

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Impact Assessment
Report No. 29

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LIST OF ACRONYMS

AC	Affiliated Company
ACC	Agricultural Commodity Council
ALCOTEXA	Alexandria Cotton Exporters Association
APCP	Agriculture Production and Credit Project
APRP	Agricultural Policy Reform Program
BM	Benchmark
C&F	Cost and freight (no insurance included)
CAPMAS	Central Agency for Public Mobilization and Statistics
CAPQ	Central Administration for Plant Quarantine (MALR)
CATGO	Cotton Arbitration and Testing General Organization
CIF	Cost, insurance and freight
CIT HC	Cotton and International Trade Holding Company
CRI	Cotton Research Institute (of ARC)
CSPP	Cotton Sector Promotion Program (GTZ-funded)
ELS	Extra Long Staple
ERP	Early retirement program
ESA	Employee stakeholder associations (form of privatization)
ETMF	Egyptian Textile Manufacturers' Federation
EU	European Union
fd.	Feddan (equivalent to 0.420 hectares or 1.037 acres)
FIHC	Food Industries Holding Company
FOB	Free on board
GATT	General Agreement on Tariffs and Trade
GOE	Government of Egypt
GTZ	Deutsche Gesellschaft Fur Technische Zusammenarbeit
HC	Holding Company
HVI	High-volume instrument (for testing lint characteristics)
IFC	International Finance Corporation
IPM	Integrated Pest Management
kg.	kilogram
lk	lint kantar(s)
LE	Egyptian Pound
LS	Long Staple
MALR	Ministry of Agriculture and Land Reclamation
MWRI	Ministry of Water Resources and Irrigation
MPE	Ministry of Public Enterprise
mt	metric ton(s)
MVE	Monitoring, Verification, and Evaluation Unit of APRP
NGO	Non-Governmental Organization
PBDAC	Principal Bank for Development and Agricultural Credit
PCSU	Privatization Coordination Support Unit

PEO	Private Enterprise Office (of MPE)
RFM-HC	Rice and Flour Mills Holding Company (merged with FIHC in 12/99)
RED	Reform Design and Implementation Unit of APRP
RMG	Ready Made Garments
S&W	Spinning & Weaving
sk	seed kentar(s)
SWRMC-HC	Holding Company for Spinning, Weaving and Ready Made Clothes
TCF	Textile Consolidation Fund
TMT-HC	Textile Manufacturing and Trade Holding Company
UD	Universal density (bale)
USAID	United States Agency for International Development

ACKNOWLEDGMENTS

This paper draws from many sources, including unpublished MPE, HC and AC reports. It goes well beyond an earlier MVE paper, *Liberalization and Privatization of Key Subsectors in Egypt's Agricultural Economy: Progress and Challenges* (Impact Assessment Report No.14, 2000), to review in detail the privatization experience in two commodity subsystems that have been the focus of many APCP and APRP policy benchmarks. The usual disclaimer applies particularly strongly in this report; the views of the author are not necessarily those of APRP, USAID, MALR or any other GOE ministry or agency.

The author acknowledges assistance from a number of individuals. Mohammed Hassouna of the PEO provided valuable background data and insights. The author acknowledges his sincere cooperation. The Privatization Coordination and Support Unit also contributed their observations, data, and points of view to this report, as well as participated in several joint interviews.

The author deeply thanks John Holtzman, Senior Agribusiness Analyst, for his encouragement and support in completing the report. He also provided valuable input into the study design and analysis of some of the data, and reviewed the draft report at various stages. Dr. Abdel Rahim Ismail Taha also deserves acknowledgment for his support in providing detailed information about the operations and performance of ESA rice mills.

The author was assisted in word processing, report formatting, and table creation by Dalia Radwan and Yvonne Louis. MVE Chief of Party Gary Ender provided his usual incisive observations and comments.

EXECUTIVE SUMMARY

Overview of the Privatization Program. By the end of December 2001, the GOE had privatized 185 enterprises and production units, which left it with 189 companies that are still up for sale. The total value of sale at that point was LE 16.8 billion or LE 88.9 million per company on average. The pace of privatization has considerably slowed since 1999, particularly for the textile industry. Therefore, the Government has initiated a program to push the privatization process and encourage the sale of the loss-making companies in the MPE's portfolio. A new incentive package was designed for the sale of 66 distressed companies, including more flexible measures for asset valuations, unbundling of larger companies, and transferring the companies' bank debt and excess labor to the holding companies. MPE announced the new initiative in June 2001 and has received letters of intent concerning a number of companies; however, no sale had taken place until the time of this writing (May 2002).

Privatization in the Rice Milling Industry. The privatization of the rice milling companies was completed in 1998/99, by which time the private sector had already invested heavily in new mills. Therefore, the privatization of public mills was of little interest to the private sector at that point, which resulted in selling all 7 rice mills to Employee Shareholder Associations (ESAs). The rice milling companies were majority privatized with the ESAs having 90% of the shares and the HC keeping 9.9% of the shares. The remaining 0.1% is sold to individuals to ensure that the company qualifies as a shareholder's company under the Egyptian law.

Although the rice milling companies have technically been majority privatized, the HC still has the majority of seats on the boards of the ESAs, and the chairman of the board must be one of the representatives of the HC. In addition, the new management board still operates like a public company; FIHC is still heavily involved in their operations. The ESAs plan their paddy purchases, pricing, sales, and exports in close coordination with the HC through weekly meetings with the chairman of the FIHC. The HC guarantees bank loans provided to the ESAs for paddy purchases and most of the exports of the ESAs have been going through the public Rice Marketing Company (RMC) since the time of privatization.

Since privatization, employment in ESA rice milling companies had dropped by almost 57% by early 2002. This drastic reduction in labor was achieved through both early retirement and regular retirement programs. At an average cost/worker of LE 22,592 and a total cost of LE 70 million, the HC had released 3,107 workers of the rice milling companies through the early retirement program (ERP).

Post-Privatization Performance. The data available on the financial performance of ESA mills after privatization were obtained from different sources; therefore their consistency for comparison over time cannot be ensured. However, it is possible to note that the ESAs' financial performance has been mixed. Financial performance seems to have dramatically improved immediately after privatization; however, this trend was reversed in the later years between 1998/99 and 2000/01 in most cases.

Privatization of Cotton Ginning Industry. Ginning industry privatization started in 1996/97 with the sale of Arabia Ginning and Nile Ginning. Both were majority privatized through the stock market, though small groups of investors quickly controlled a majority of the shares. The sale of other public ginning companies has stalled due to the high value of the land on which the gins are located. In addition, a large excess capacity exists in the industry and, thus, the private sector is reluctant to invest when ginning revenues and net returns remain low. At this point, the prospects of privatizing the remaining public ginning companies seem rather slim.

Both public and privatized ginning companies have implemented ERPs, through which a total of 540 workers were released from the industry at a total cost of LE 12.5 million and an average cost per worker of LE 23,190.

Post-Privatization Performance. The privatized companies, particularly Arabia Ginning, have witnessed considerable technical and managerial improvements after the transfer of ownership to the private sector. Arabia's new management has improved seed-cotton cleaning and introduced full and partial mechanized feeding, which resulted in a 35% increase in output per unit of time. In addition, a new quality control department was established to review ginning operations and ensure quality for exports. Arabia has also imported new ginning stands from India and replaced the equipment in a number of its gins. The new stands have the advantage of saving energy, as their power consumption is 15% less than traditional stands and their post-devaluation cost was 66% of that of the traditional English ones, including custom duties. Also, both Arabia and Nile Ginning have introduced new UD bale presses. Exporters can export lint cotton directly from the gins, avoiding costly Farfarra and repressing in Alexandria.

According to the limited data available on the financial performance of privatized companies, Arabia Ginning witnessed a significant improvement in its financial performance with an increase in profits of 25.6% immediately after privatization. Arabia maintained the same level of profits into 1998/99. Nile Ginning, on the other hand, recorded a decline in profits for the year immediately following privatization.

Privatization of Spinning and Weaving Companies. So far the GOE succeeded in privatizing four companies (Unirab, Alexandria Spinning & Weaving, KABO, and Bolivara), in addition, to liquidating one company (Cairo Silk). Production units in four other public companies have been leased long-term (5-10 years) to private operators. Most of the privatization achievements took place between 1996 and 1998, and the progress in privatizing textile companies has been halted since 1999.

The current portfolio of the SWRMC-HC includes 39 companies, of which 29 are involved in textile manufacturing, while the other 10 include ginning, trading, and pressing companies. In order to compare the performance of privatized textile companies with public sector spinners, this report discusses the performance of several public spinners which have performed reasonably well compared to the majority of public spinners. These leading public spinners are also prime candidates for privatization and have in fact been offered for privatization at different points during the past four years.

Performance of Public Textile Companies. The overall performance of public sector companies has been deteriorating over time. In addition, the financial performance has been worsening at an increasing rate over the past five years between 1997 and 2001. In 1997, net revenues of the HC were more than LE 6.3 million but fell by almost 54% to reach LE 2.9 million in 2001. Earnings before taxes for the profit-making companies declined by 54% as well, while loss-making companies incurred an increase in losses by 30.7% over the same period.

In the annual report presented to the board of the SWRMC-HC at the close of FY 2000/01, the HC identified interest payments and wages for redundant labor to be the main reasons behind the continued poor financial performance. Excluding the non-textile companies, the HC was burdened by LE 1 billion of accumulated interest payments in June 2001, up from slightly less than LE 900 million in 2000. In addition, the burden of redundant labor wages is up 4.4% from LE 226 million in 2000 to LE 236 million in 2001, with higher salaries offsetting the lower number of workers. It is worth noting, however, that most of the burden and drain on the HC's resources can be attributed to textile companies and their worsening performance over the past five years.

The financial data for nineteen cotton-textile companies between 1995/96 and 2000/01 are presented in this report, including the better-performing and prime privatization candidates, such as Shebeen El-Kom S&W (Shebintex), Dameitta S&W, Delta S&W, STIA, El-Seiouf, and Port-Said. The main conclusion about the financial performance of these companies is that it has significantly worsened in the second half of this five-year period. In fact, for some of these companies the financial performance improved during the first half of APRP and then sharply declined over the second half of this period.

Although the GOE had slowed down the privatization of textile companies awaiting improved market conditions and better offers from investors, it seems that there were better opportunities to privatize before 1998/99, when the performance of cotton-textile companies started to deteriorate at a higher rate.

Leasing of Textile Production Units. Due to the difficult issues and complications that hinder the privatization of textile companies, private sector entrepreneurs may find it more feasible and cost-effective to lease the better-performing production units through long-term leases. Two spinning and weaving units have been leased from Sharkia Spinning and Weaving and ESCO. The other two leases within the SWRMC-HC are for a dyeing unit and a ready-made garments unit.

The leasing experience has been rather positive, since the new management of the leased units invests in refurbishing and upgrading equipment, training the workers, and introduces a private-sector management style, which has a noticeable effect on the performance of the leased units.

Management Contracts. In an attempt to prepare public companies for privatization, the SWRMC-HC seeks the expertise of specialized management firms. Through the newly established Egyptian Company for Development of the Textile Industry, the HC is in the process of implementing and monitoring four management contracts in Misr-Helwan S&W, Nasr-Mehalla S&W, Shourbagui,

and Cairo Artificial Silk. Unfortunately, the overall performance of these management contracts has not been satisfactory.

1. INTRODUCTION

This endline paper discusses the progress of the Egyptian privatization program since the beginning of the program until 2000/01, particularly in the rice and cotton-textile subsectors.

For the rice subsector, the paper focuses on assessing the post-privatization performance of the ESA rice milling companies, since most of the industry has already been privatized except for some trading companies, such as the Rice Marketing Company. The paper will study the change in the management culture of the rice milling companies, the public sector influence over them, the employment and early retirement situation, and the financial performance of the ESAs.

As for the textile subsector, the focus will be on companies that gin and spin cotton. The paper will discuss the privatization of the ginning companies, as well as the privatization and leasing of cotton textile companies. The privatized companies were studied in terms of their financial performance, employment and early retirement programs, and levels of operations. Given the slow pace of privatization in the textile industry, the paper examined the performance of the public sector cotton-textile companies, particularly those that are prime candidates for privatization.

The paper draws heavily on reports and data obtained from the Ministry of Public Enterprises (MPE) and the Spinning, Weaving and Ready-Made Clothes Holding Company (SWRMC-HC). In addition, data was obtained through MVE surveys, interviews, and previous APRP and CSPP reports.

The paper is organized in six chapters. Chapter two presents an overview of the privatization program and achievements to date, while chapters three, four, and five examine the privatization of the rice milling, cotton ginning, and cotton-textile industries. Finally, chapter six makes some concluding observations and presents policy recommendations.

2. OVERVIEW OF PRIVATIZATION ACHIEVEMENTS

This chapter summarizes progress to date in Egypt's privatization program. It also compares privatization activity in the spinning industry to the entire national portfolio.

2.1 Progress in Privatization

By March 2002, the Ministry of Public Enterprises (MPE) had privatized a total of 147 enterprises in addition to 38 units that were leased (20 units) and sold as production assets (18 units), rendering a total of 185 enterprises and plants. Although MPE reports the privatization of over 45% (147 enterprises) or even over 55% (all 185 units) of its original portfolio of 314 public enterprises, which were subject to the rulings of law 203, there remain 189 companies to be privatized. The exact number of privatized companies and those that remain to be sold have caused some confusion amongst those that monitor the progress of the privatization program in Egypt. The source of confusion is mostly due to the MPE's process of restructuring large companies and splitting them into a number of smaller companies with the aim of facilitating their sale. For instance, this was the case with Kafr El-Dawar Spinning and Weaving Company, which was split into three companies; Kafr El-Dawar, Kom Hamada, and Mahmoudia. In any case, the privatization program still has a way to go, especially if it becomes necessary to restructure and decompose large companies into smaller units. The total value of sales at the end of 2001 amounted to slightly below LE 16 billion for the 147 privatized enterprises, in addition to LE 840 million for the production assets sold and companies leased. The total proceeds of the privatization program reached LE 16.8 billion by the end of 2001.

Table 2-1: Privatization Achievements as of December 31, 2001

Privatization Method	No. of Companies & Production Units	Sale Value (Million LE)
Majority sold through stock market	38	6312
Sold to Anchor investor	29	6968
Sold to employee share holder ass. (ESA's)	32	939
Companies sold 40% (Stock market)	10	655
Companies sold less than 50% (stock market)	6	1100
Companies under liquidation	32	0
Sub-total	147	15974
Sold as production assets	18	840
Leased companies and production units (Long term lease)	20	Leased
Total	185	16814

Source: MPE, *Privatization Achievements*, December 2001.

Table 2-2: Privatization Achievements by Holding Company as of December 31, 2001

Holding Company	Sale Value (Million LE)	Percent of Sale Proceeds
Spinning and Weaving	588	3%
International Trade	1,254	7%
Engineering Industries	924	5%
Metallurgical & Mining Industries	6,692	40%
Chemical Industries	2,059	12%
Pharmaceuticals	233	1%
Food Industries	2,172	13%
Construction	1,195	7%
Tourism & Housing & Cinema	1,396	8%
Land & Maritime Transport	301	2%
Total	16,814	100%

Source: MPE, *Privatization Achievements*, December 2001.

Although the privatization program has slowed down considerably in the past couple of years, it has not completely stopped. The MPE indicated that it had privatized 12 companies during the year 2001 at a total value of LE 943 million, representing almost 6% of the total value of companies privatized since the start of the privatization program, amounting to LE 16.8 billion. These 12 companies sold during 2001 were distributed as follows: three were sold to anchor investors, two to Employee Shareholder Associations, two companies were sold as assets (liquidated), and three companies were sold as factories and production lines. Also, two companies were leased under long-term contracts (Al-Alam El-Youm newspaper, January 1, 2002).

As for the spinning and weaving subsector, it has contributed very little to the overall progress of the privatization program. Since the beginning of the program in the early 1990s until December 31, 2001, the total sales proceeds from spinning and weaving companies was LE 588 million, which represented 3% only of total proceeds for the entire privatization program. Only five textile companies have been sold to date; three companies were majority sold through the stock market (Unirab, Alexandria Spinning & Weaving, and KABO), one company was sold to an anchor investor (Bolivara), and another was liquidated (Cairo Silk). In addition, production units were leased through long-term contracts in four companies.

2.2 The Challenge of Privatizing Distressed Companies

In addition to the slow pace of the privatization program overall, the government is facing serious obstacles in privatizing the loss-making distressed companies. MPE still has to privatize almost 190 companies. Fifty-four of them are loss-making companies, of which 17 companies are responsible for 80% of total losses and have 60% of employment. Out of those 17 companies, 14 are textile companies. Textile companies are a major problem for the privatization program. It would cost the GOE LE 4 billion to restructure these companies to increase their efficiency. This sector has 14

companies that make huge losses and await any kind of sale¹. The major problem with these 17 heavily distressed companies is their large number of workers, which prevents their liquidation and at the same time discourages investors from buying them. This is particularly true for the public textile companies, where the total number of workers amounted to 20% (206,653)² of the total employment in public sector at the beginning of the privatization program. Now after applying early retirement packages, total employment was reduced to 136,316 workers according to MPE figures. However, the government still has a long way to go before reducing all labor redundancy in the textile companies. The SWRMG-HC estimated that the financial requirements to implement an early retirement program for excess labor would amount to almost LE 977 million in 26 affiliated companies.

In an attempt to push the privatization program forward, the MPE has announced a new initiative to privatize 66 distressed companies. The new initiative was announced in June 2001 during the “Conference on New Horizons for Investors in Egypt’s Privatization Program” held in Cairo. The new initiative calls for the break-up of loss-making companies into land, buildings and equipment, with each asset being sold off independently and not in the form of an integrated production unit. The new package includes unbundling of companies as well as new valuation methods for the distressed companies. The new package clearly states the following incentives:

- The state, represented by the HC, assumes responsibility for the bank debts of the affiliated companies;
- The state, represented by the HC, undertakes the settlement of the excess labor situation; and,
- The buyer of one of the 66 companies enjoys a 5-year tax holiday, provided that a venture capital company is established in accordance with the rules of Investment Law No.8/1997

In addition, the following new rules and valuation techniques apply to the distressed companies:

- Land is valued according to the price per meter in the nearest new industrial community. In addition, the investor is not required to buy the land on which the company or production units exit. Investors can have the right to use the land against an annual payment equivalent to a percentage of the value of the land. The right of use is valid as long as the industrial activity on the piece of land is ongoing.
- Buildings are valued according to their replacement cost multiplied by a percentage of remaining lifetime.
- Machinery and tools are valued according to the remaining lifetime in case the equipment has fully depreciated and their book value could not be used. Otherwise, the book value is used as a floor valuation.
- Working capital items, such as inventory and accounts receivable, can be assumed by the Holding Company according to the desire of the investor.

¹ Data obtained through interviews with MPE officials

² Total employment in the textile holding companies was 206,653 in 1992/93 (See Ender et al., *Effect of Policy Reform under APRP: Progress Indicators, 1990-1999*, April 2001).

The 66 companies include the 54 loss-making companies. Forty-six companies out of the 66 were advertised for sale between 21-24 September, 2001. MPE has already received some feedback from the market where a number of investors expressed interest in 24 companies by sending letters of intent. Out of those 24 companies, five are spinning and weaving companies. A letter of intent was submitted to MPE regarding Dakahlia, Damietta, Shebeen El-Kom, Stia, and Port Said spinning and weaving companies. Although the Ministry claims to be flexible and would accommodate and negotiate various types of arrangements with interested investors, the new incentives have not resulted in the sale of any distressed companies yet.

3. PRIVATIZATION OF THE RICE MILLING INDUSTRY³

The efforts to privatize the rice milling companies were too late to interest the private sector. Privatization of rice mills was completed in 1998, too late as massive private sector rice milling capacity had already been created from 1995 through 1998 following the liberalization of the rice subsector. Thus, the GOE did not get the response that it had anticipated from the private sector, which resulted in selling 7 milling companies to Employee Shareholder Associations (ESA) by October 1998. The remaining public rice milling company, Gharbia Mills, was sold as an ESA in September 2001.

3.1 Privatization of Public Rice Mills as ESAs

All rice milling companies were majority privatized with the ESA holding 90% of the shares, the Holding Company keeping 9.9% of the shares, and 0.1% for the private individuals to ensure that the company qualifies as a shareholder's company. In reality, those private individuals are the board members who represent the HC. The sale value of these companies varied considerably and ranged between LE 48.5 million (Damietta and Belkas Mills) and 11.5 million (Rasheed Mills).

ESA mills were financially restructured prior to their sale and all of their excess capacity and assets, as well as their debts, were transferred to the HC, and some of these assets was sold by the HC. After this restructuring, the mills were evaluated, estimating profits at 8%, and then sold to employees' associations. The total value of the company was supposed to be paid over 12 years, which was recently extended to 15 or 20 years when the mills were unable to pay. So far, only three rice mills have started paying their installments, they paid two installments, and they are still late in paying the third. Those mills are Sharkia, Daquahlya, and Damietta & Belkas. The grace period for the other companies was extended for another year, during which their situation will be re-studied by the HC.

According to the privatization agreement, ESA companies are also entitled to technical restructuring from the HC, which actually has provided some new sorting equipment to some mills. As the excess capacity of the rice mills was transferred to the HC, the mills now operate at a reported 70-80% of their capacity, which is a significant increase from 12-13% prior to privatization.

³ This section draws heavily on Holtzman et al., *Rice Subsector Update II*, February 2002.

Table 3-1: Sale and Share Data for ESA Rice Milling Companies

ESA Rice Company	Selling Date	Sold% Private Sector	ESA	Current HC Share	Sale Value (Million LE)			Date of Final Approval to Law 159 Status
					Private Sector	ESA	Total	
Damietta & Belkas	01/01/99	0.1%	90%	9.9%	0.005	48.557	48.562	27/06/99
Sharkeya Mills	01/07/98	0.1%	90%	9.9%	0.007	38.691	38.698	04/03/99
Kafr El Sheikh Mills	27/07/98	0.1%	90%	9.9%	0.005	12.983	12.988	19/09/99
Rasheed Mills	26/09/98	0.1%	90%	9.9%	0.005	11.498	11.503	30/10/99
El Beheira Mills	26/09/98	0.1%	90%	9.9%	0.01	21.780	21.79	08/08/99
Dakahleya Mills	03/10/98	0.1%	90%	9.9%	0.02	36.713	36.733	27/06/99
Alexandria Mills	10/10/98	0.1%	90%	9.9%	0.01	26.775	26.785	10/07/99
Gharbeya Mills	01/07/01	0.0%	90%	10.0%	0.0	51.190	51.190	Not Yet

Source: MPE, *Privatization Achievements*, December, 2001

3.2 Public Control over ESA Rice Mills

Although nominally employees own 90% of the ESA rice mills, they practically own less, as the employees are supposed to buy the shares of these companies by installments over ten to thirteen year periods. Also, the new ESA management boards operate mostly like the public sector, and the HC has a majority of seats on each company's board of directors. In addition, the ESA mills plan their operations in close coordination with the Holding Company. For instance, the chairman of the FIHC chairs weekly meetings with the chairmen of all ESA mills in Cairo to coordinate purchase of paddy, milling, and export activities. The involvement of the Holding Company is critical in the operations of the ESA mills. The HC guarantees the bank loans provided to the ESAs to purchase paddy. Without this guarantee or in case of private ownership of the company, for example, banks would not be willing to provide those loans.

The ESA rice mills use the public sector Rice Marketing Company (RMC) to export the milled rice of theirs. In 1999/00, the RMC shipped an estimated 80% of the total public sector exports of 26,399 mt. In 2000/01, it shipped more than any other exporter, 100,665 mt, of which approximately 60,000 mt was exported to Syria and Libya and 40,000 mt to other destinations, particularly in Africa. RMC is hoping to export more in 2001/02, perhaps as much as 300,000 mt. The RMC's recent level of exports far outstrips its shipments of only 15,080 mt in 1998/99 and 30,635 mt in 1997/98.

Although there was talk of privatizing the RMC, its status is unchanged, and there is no plan to privatize it. It has a rather large staff of 540 workers, which represents a 55% reduction from 1200 workers in 1995/96. The annual cost of labor was about LE 4.5 million in 2000/01, with an average monthly rate of LE 694 per worker. The company has implemented an early retirement program of LE 25,000-30,000 per worker that is funded by the FIHC.

RMC has 49 warehouses, which provide a storage capacity of 40,000 mt. These stores are well placed all over the country. The company could be privatized later, probably in the form of an ESA or may even be completely liquidated.

Although most of the rice exported by the ESA mills is shipped through the RMC, four of eight ESA mills exported directly in 2000/01, but shipped only 9,139 mt of rice, 8.2% of total public sector exports. Three mills exported directly in 1997/98 and 1998/99. Private exporters sometimes use ESA mills as a source of supply, but the MVE Unit has no statistics on how much of the rice milled by the ESA mills is sold to the private sector.

ESA mills at this point are mostly dominated by the FIHC and they enjoy little autonomy in decision-making and management. This situation poses a challenge for the validity and utility of privatization efforts in the rice subsector. However, this could be a stage of transition from the public to the private sector, especially since the HC still has a majority of seats on the boards of the mills as the employees have not paid sufficient installments to exercise control over management.

The HC officials believe that they are entitled to manage the privatized companies, as they are responsible for supporting many of its operations. According to the terms of the sale, representatives of the HC on the board of each company (3 out of 5) are to be replaced by representatives of the shareholders as they progress in making payments. However, such changes in the board have not yet taken place, even for the companies that have started paying. At the moment the decision is that no change in the board composition would take place until the total value of the company is paid off, which will not happen for at least another 15 years. The HC fears that if the management is given to the shareholder association, they would sell shares to the private sector and jeopardize this strategic activity. While the FIHC may consider the ESA milling as a strategic activity, from the public sector perspective, MVE data and calculations of national capacity show that the private sector milling capacity has been sufficient, since 1997/98, to process the entire Egyptian paddy crop. See Holtzman et al., *Rice Subsector Baseline Study*, 1999.

Hopefully with time, as the employees come to control the board of directors, ESA mills will gradually adapt their management practices to follow the private sector model. Note that APRP/RDI and ADALA worked closely together with ESA rice mill managers from 1999 to 2001 to change those managers' perceptions of their roles from passive followers of HC instructions and takers of sales orders to more active managers driven by market demands and financial performance.

3.3 Employment at ESA Mills

Employment at the ESA rice mills, shown in Table 3-2, is now reportedly less than half of what it was before the conversion from Law 203 status to Law 159. Data collected from individual ESA rice mills, show that there were 4,606 employees in the eight companies through early 2002. This represents a 56.8% decrease in the labor force compared to the 1997/98 figure of 10,674 workers at these same companies, when they were public sector firms in the RFM-HC⁴.

⁴ See Table 9-9, p. 103, in the *Rice Subsector Baseline Study*, 1999.

Table 3-2: Employment in ESA Rice Milling Companies, 1996/97 - 2001/02

Company	No.of Workers		% Change	Average. Wage**		% Change	Wage Bill (Mil. EGP)		% Change
	1997/9 8	2000/01		1997/98	2000/0 1		1997/9 8	2000/0 1	
Sharkia Rice Mills*	1,409	669	-52.5%	4,578	5,765	25.9%	6.45	3.86	-40.2%
Damietta & Belkas Mills	1,100	449	-59.2%	5,636	5,731	1.7%	6.20	2.57	-58.5%
Kafr El-Sheikh Rice Mills	1,243	615	-50.5%	5,060	4,878	-3.6%	6.29	3.00	-52.3%
Dakahlia Rice Mills	1,050	480	-54.3%	5,714	5,208	-8.9%	6.00	2.50	-58.3%
Gharbia Rice Mills	2,101	650	-69.1%	6,202	6,538	5.4%	13.03	4.25	-67.4%
Beheira Rice Mills	1,391	781	-43.9%	4,536	3,044	-32.9%	6.31	2.38	-62.3%
Alexandria Rice Mills***	1,300	390	-70.0%	5,377	6,410	19.2%	6.99	2.50	-64.2%
Rasheed Rice Mills***	1,080	572	-47.0%	6,019	5,140	-14.6%	6.50	2.94	-54.8%
Total/Average	10,674	4,606	-56.8%	5,390	5,339	-0.9%	57.77	24.00	-58.5%

Source: MVE interviews. Figures for 1997/98 are obtained from the Rice Baseline Study.

* For Sharkia and Gharbia Mills, the number of workers refers to employment in January, 2002.

** Average wage is calculated for 2000/01 using data on No.of workers and total wage bill.

*** No.of workers and total wage bill in 2000/01 corresponds to March 2001 for Alexandria and August 2001 for Rasheed.

Nearly 1,000 workers across the eight ESA milling companies were “on leave” or “reassigned” to the Holding Company by early 2001. While these workers are not included among the labor force of 4,928 employees reported in early 2001 and are no longer paid by those companies, they are still receiving pay from the FIHC. It is not clear what FIHC intends to do with these redundant workers.

Table 3-3 shows disaggregated employment by worker category at the 8 ESA rice milling companies⁶. Over one-quarter (27.7%) of all the workers are administrative or clerical. More than one-fifth (22.5%) work in rice milling, while 12.3% work in paddy purchasing and 7.3% in white rice sales. Another 30.2% work in other enterprises, most notably animal feed mixing (12.5%) and macaroni production (7.5%).

While some workers retired at the normal retirement age or of their own volition, most left through early retirement programs. At an average cost of LE 22,592 per worker, the total cost for the ERP for 3,107 workers has been about LE 70 million. The estimated annual savings in labor cost after the implementation of ERP is LE 17.6 million. See table 3-4 for achievements of ERP from 1997/98-2000/01.

⁶ MVE was unable to obtain a breakdown of the 300 workers of Alexandria Rice Milling Company who worked in administration and the rice-milling enterprise.

Table 3-3: Worker Numbers and Distribution by Category in ESA Rice Mills, Early 2001

Company	Total Employment		Workers who Left	Mo. Cost of Employment (LE million)	Employment Distribution by Company Activities									On Leave
	Apr-97	Earl y 2001			Administrative			Rice Milling	Paddy Purchase	White Rice Marketing	Macaroni Prod.	Animal Feed Unit	Other	
					Acct.	Financial	Secret.							
Sharkia Rice Mills	1,409	669	740	321,417	100	80	30	100	40	40	78	121	80	83
Damietta & Belkas	1,152	399	753	208,333	30	50	10	60	20	20	30	100	79	50
Kafr El Sheikh	1,243	539	704	258,000	80	90	40	115	85	56			73	88
Dakahlia	1,102	449	653	215,118	55	70	35	80	35	45	73		56	71
Gharbia	2,101	1,234	867	516,545	120	115	87	216	210	88	75	235	88	158
Beheira	1,391	676	715	408,547	65	54	40	125	130	75		109	78	105
Rashid	1,132	572	560	245,000	21	47	40	326	37	9	85		7	12
Alexandria	1,300	390	910	208,333				300				90		400
Total	10,830	4,928	5,902	2,381,293	471	506	282	1322	557	333	341	655	461	967

Source: APRP/MVE, Interviews with ESA rice mill officials.

Notes: 1) Employees on leave are on leave without pay or their salaries are paid by the Holding Company. These employees are not included in "Total Employment."

2) Alexandria Rice Milling Company did not provide disaggregated employment data. Although the 300 active employees are listed in the rice milling category, they should be distributed across the administrative, rice milling, paddy purchasing, and rice marketing categories.

3) Calculations of the percentages of employees in each employment category exclude Alexandria Rice Milling Company.

Table 3-4: Achievements of Early Retirement Program, 1997/98 - 2000/01

Milling Companies	No. Workers		% ERP	Estimated Cost/Worker	Total ERP Cost	Annual savings after ERP**
	97/98	ERP*				
Sharkia Rice Mills*	1,409	432	30.7%	20,602	8,900,000	2,100,000
Damietta & Belkas Mills	1,100	381	34.6%	22,572	8,600,000	2,500,000
Kafr El-Sheikh Rice Mills	1,243	414	33.3%	21,498	8,900,000	2,200,000
Dakahlia Rice Mills	1,050	321	30.6%	22,430	7,200,000	2,000,000
Gharbia Rice Mills	2,101	379	18.0%	25,066	9,500,000	1,600,000
Behiera Rice Mills	1,391	380	27.3%	23,158	8,800,000	2,300,000
Alexandria Rice Mills	1,300	446	34.3%	23,094	10,300,000	2,400,000
Rasheed Rice Mills	1,080	354	32.8%	22,316	7,900,000	2,500,000
Total/Average	10,674	3,107	29.1%	22,592	70,100,000	17,600,000

Source: MPE

* Cumulative No. of Workers since the beginning of the privatization program.

** Savings after ERP are calculated using average wage/worker multiplied by No. of workers that left.

3.4 Post-Privatization Performance of ESA Mills

It is hard to assess the post-privatization performance of the 8 ESA mills, as information about their financial situation and management practices are very patchy and partial. Data are obtained through structured informal interviews with different key informants; however, the information gathered is sometimes inconsistent, especially information regarding the financial performance of these companies.

Data on the revenues of the ESA mills indicate that only two of the companies have achieved higher revenues between 1997/98 and 1998/99. Revenues of Sharkia Mills increased by 12.4% from LE 68.9 million to 77.5 million, while Damietta & Belkas Mills' revenues increased by 20.9% from 64.7 million to LE 78.3 million. The data available on the remaining companies is limited to Alexandria, Dakahlia, and Behiera Mills, which have reported reduced revenues. Alexandria revenues in 1997/98 were LE 36.7 million and went down to 16.6 million in 1998/99. The same is true for Dakahlia and Beheira Mills, where revenues went from LE 64.7 to LE 49.1 million and from LE 32.1 to LE 29.4 million respectively. It seems, therefore, that these ESA mills successfully reduced costs, mostly through reducing employment, which contributed to increasing profits.

The ESA mills' performance improved considerably immediately after privatization. The data available from MPE for 1997/98 and 1998/99 show significant improvements in the companies' profits. For instance, Sharkia Mills went from incurring losses of LE 5.2 million in 1997/98 to achieving profits of LE 6.1 in 1998/99. The same is true for Damietta & Belkas Mills that went from incurring losses of LE 17.4 million to profits of LE 5.1 million. Other companies improved their performance by reducing the amount of losses reported by the company. Alexandria Mills reduced their losses from almost LE 40 million to slightly less than LE 7 million over the same period.

It is difficult to examine the financial performance of the ESA rice mills over the past few years, as the financial data available were obtained from different sources and thus their consistency in terms of definitions and calculation technique cannot be ensured. However, it is possible to note that the significant improvement in financial performance did not persist between 1998/99 to 2000/01. The companies for which the time series is available show a decline in financial performance. The better performing Damietta & Belkas company witnessed an 8% decrease in profits. Performance of other companies deteriorated considerably. For instance, profits of Sharkia rice mills decreased by almost 69%, while Beheira rice milling companies went back to making losses that amounted to LE 5 million in 2000/01.

This reverse in the trend of profits over the past two years may be attributed to the sharp decline in paddy prices both domestically and in international markets. Such decline in prices may have resulted in squeezing the margins for milling companies. In addition, rice milling companies were estimated to hold a carry-over of paddy of 200,000 mt from the 1999/2000 marketing season, which was procured at much higher prices than those of 2000/01 season. However, with the sharp decline in domestic paddy prices in 2000/01, milling companies had to dispose of their carry-over paddy at much lower prices, which may have resulted in a considerable reduction in their profits. It is also worth noting that the more successful ESA milling companies, namely Damietta & Belkas, Sharkia, and Dakahlia, have diversified activities beyond rice milling, which remains to be highly competitive with small profit margins. These companies have other operations such as macaroni and animal feed.

On a more positive note, net equity has increased considerably from 1997/98 to 1998/99 for all five rice milling companies for which data are available. Net equity more than tripled for Dakahlia and Damietta & Belkas rice milling companies. Net equity also increased by 32% for Sharkia Rice Company and went from negative values for Alexandria and Rasheed milling companies to a positive net worth of LE 24.8 million and LE 54.5 million respectively. Between 1998/99 to 2000/01, net equity remained positive for most of the rice companies (except for Kafr El-Sheikh company). However, the increase in net equity was not as significant over the last two years, and it even decreased by 20% for Behiera milling company. For financial performance figures, see table 3-5.

3.5 Corporate Culture at the ESA Mills

According to the head of the privatization office in the HC, the workers elected to the board of the ESA mills lack the necessary management experience and vision. They do not have the necessary managerial capacity and they still perceive themselves and operate as a public sector companies. However, he indicated that their performance improved after their annexation to the FIHC. Prior to joining the FIHC, rice exports were limited to the traditional markets, while in recent years, export volumes increased considerably and new markets were penetrated⁷. He attributed this to the skillful top management of the FIHC that opened new markets and increased market shares in older ones, namely in Syria and Libya.

⁷ Note that rice export subsidies in 2000/01 led to a more than doubling of rice exports from 1999/00 (333,700 mt) to 2000/01 (755,400 mt). In addition to formation of COMESA that opened African markets to Egyptian exports, there were the barter deals with Syria (rice exchanged for cotton seed oil).

Table 3-5: Financial Performance of ESA Rice Milling Companies, 1997/98 - 2000/01

(1000 LE)

Company	Current Revenues			Net Income (Profit/loss)			Total Assets			Liabilities			Net Equity		
	97/98	98/99	% change	97/98	98/99	00/01 ^a	97/98	98/99	00/01 ^a	97/98 ^b	98/99 ^b	00/01 ^a	97/98	98/99	00/01 ^a
Sharkia Rice Mills	68,994	77,517	12.4%	-5,188	6,100	1,906	81,338	60,025	67,765	56,172	26,723	35,258	25,166	33,302	32,506
Damietta & Belkas Mills	64,758	78,312	20.9%	-17,414	5,175	4,761	124,867	105,887	115,714	105,713	10,547	10,715	19,154	95,340	104,999
Kafr El-Sheikh Rice Mills						-7,083			36,550			36,752			-202
Dakahlia Rice Mills	60,741	49,171	-19.0%	-12,423	4,144		113,500	74,114		103,181	31,327		10,319	42,787	
Gharbia Rice Mills						-8,000			110,033			36,300			73,733
Rasheed Rice Mills						181			658,140			33,480			16,473
Behiera Rice Mills	32,178	29,464	-8.4%	-17,203	1,827	-5,003	75,580	53,452	64,525	79,297	28,633	44,686	-3,717	24,819	19,838
Alexandria Rice Mills	36,736	16,617	-54.8%	-39,954	-6,998	-10,850	122,688	82,756	80,149	213,395	28,230	40,865	-90,707	54,526	

Source: MPE, FIHC, and MVE interviews.

^aFigures for 2000/01 were obtained through MVE interviews. Provisions are not included in the data.

^b Figures for total liabilities and provisions are estimated by subtracting net equity from total assets figures as obtained from MPE..

Kafr El-Shiekh & Beheira: Net Equity is calculated by subtracting carried loss from Total Equity and from Total Assets.

As a general note, the impact and effectiveness of employee ownership as a tool for privatization has been mixed and varied from one economic activity to another. ESA privatization has been concentrated in certain sectors, namely public works and land reclamation, rice milling, and maritime and inland transportation. The ESA mechanism has worked best in land reclamation companies, while other companies privatized through ESAs in the maritime and milling activities have performed poorly. However, one study concluded that it is more appropriate to tie the performance of an ESA to its economic sector rather than to the method of sale⁸. For instance, public works and land reclamation services were in demand by the government, which is a captive market, while maritime services have been facing serious competition from more experienced private companies.

It is also premature to assess the merits of ESA as a privatization method since only the public works companies (11 out of 32 companies) have been sold for a long enough period to gain control over their Board of Directors and operate independently⁹. Other companies, including all rice milling companies, have received grace periods and are late in making payments and thus remain under the control of their holding company. The heavy involvement of the HC does not allow enough room to change the corporate culture of the company to be more private-sector oriented, which will not happen until the workers pay off their debts, finally control their shares, and remove HC representatives from the Board.

⁸ See Carana Corporation report *Employee Ownership and Privatization in Egypt*, 2002

⁹ Eleven public works and land reclamation companies were privatized early, from July 1994 through February 1995, while thirteen in total have been privatized.

4. PRIVATIZATION OF COTTON GINNING INDUSTRY

4.1 Privatization Achievements

Privatization of the ginning industry started in 1996/97 with the sale of Arabia Ginning and Nile Ginning, which were sold through the stock market with the majority of shares (90%) to the private sector and minority shares (10%) held by employee shareholder associations. The sale value for these companies was LE 87.1 million and LE 294.8 million for Arabia and Nile, respectively. Many observers felt that Arabia Ginning was undervalued, relative to the value of the land on which gins were located. The HC adjusted the sale price of Nile Ginning up significantly (3.5 times higher), even though the underlying value of the assets was approximately the same. Three other ginning companies remain under public ownership; those are Delta Ginning, Misr Ginning, and El-Wadi Ginning.

The Holding Company has offered the remaining public companies for sale; however, the GOE is not willing to sell the land on which the gins are built but is offering to lease it to the privatized companies. The GOE would not want to see the land of the newly privatized companies sold at the market rate and the new owners making large capital gains, while the original valuation of the company valued land at below market rates. The sale of the land is an important issue, particularly as the GOE feels that the land was undervalued when selling Arabia Ginning. This situation contributed to the failure to sell off the three public ginning companies, as private sector investors insist on having full ownership rights to the land.

The privatization prospects for the remaining public ginning companies seem to be slim at the moment. Delta Ginning was offered for privatization in 1998/99; however, investors were not interested. At the time, the company was valued at LE 196 million, using the price of neighboring new industrial zones to value the land. The company was offered for sale provided that the land would be used for the ginning activity and not directed to any other use. Delta Ginning officials believe that this is the main reason behind the failure to sell the company.

In 2000, a study was conducted across all ginning companies, and it recommended the merger of the three public companies into one, in which case it would be feasible to privatize individual gins and close down others to reduce the excess capacity throughout the subsector. The study was based on the national ginning capacity at the time of 54 gins, 21 private gins and 33 public. The study suggested the closure of 13 public gins, thus reducing the overall ginning capacity to 41 gins, which can gin 7 million lk at full capacity and can reach 8.5 million lk if operating at maximum capacity¹⁰. The suggested industrial restructuring would get rid of excess capacity and would render the industry more profitable and thus more attractive to private investors. The study was approved by the HC; however, no implementation steps were taken.

As for Misr Ginning, the company officials indicated that there were rather more objective reasons for the lack of interest on the investors' part, as most of the company's gins are located in Upper Egypt

¹⁰ This assumes continuous operation through the end of March.

(8 gins), where only 20% of the cotton crop is grown, and where varieties (Giza 80, 83) are largely reserved for domestic spinning and exported only in small quantities. Most of the prospective investors in privatized gins are larger exporters, who want to control access to exportable lint and ensure quality of ginning services. Moreover, there are 10 other gins that operate in Upper Egypt, which reduces the company's market share considerably to about 45% of the market in Upper Egypt and about 17% of the whole cotton crop. Misr Ginning has only three gins in the Delta, where the export varieties are grown. Thus, the main obstacle facing the privatization of Misr is its excess capacity and disproportionate distribution of its gins.

Misr Ginning has offered individual gins for privatization; however, they were still too expensive due to the large areas of land on which they are built. For instance, Misr had offered the gin in Benha for sale prior to its closure. At this point, the land was valued at LE 150/m², while the market rate was LE 1000/m². However, the gin was still too expensive as it was situated on over 72,000 m², so the land value equaled LE 10.8 million. Private investors were reluctant to tie up so much capital just to purchase the gin, knowing that the GOE would not permit selling parts of the land even to make new investments or upgrade the equipment.

The third public ginning company, Wadi Ginning, is also offered for privatization; however, there is no specific plan to privatize it other than offering its shares on the stock market when the economy is on the upturn again. So far, Wadi has not implemented an early retirement program to release any redundant workers.

4.2 Early Retirement Programs

Both public and private ginning companies have implemented an early retirement program (ERP); however, redundant labor still exists in both groups of companies. The total number of workers that were released from the ginning industry through the ERP is 540, which represents 11.5% of the total employment in the industry in 1996/97, of which 335 were released from public ginning companies and 200 from privatized ones. The total cost of the ERP is LE 12.5 million and would result in estimated annual savings of more than LE 3.0 million in total labor cost in the ginning industry. See table 4-2 for the achievements of ERP to date.

Delta Ginning had an ERP that released 73 workers at a total cost of LE 1.7 million. Other workers are released through the regular retirement process. The ERP was funded through the HC and it resulted in total savings of LE 0.7 million in annual labor cost. Delta Ginning officials indicated that the ERP helped to reduce the total wage bill from LE 10 million to 8.3 million annually; however, the figures for labor cost reported by the HC differ from those cited by the company's management. Currently, Delta has a total of 742 workers and hires an additional 700 workers during the ginning season, of which 200 are hired year-round, as they are experienced workers who can provide training to less experienced technicians and ensure high ginning standards. The cost of seasonal workers is only one-third of that of permanent workers, which contributes to the reduction of labor costs, as seasonal workers replace permanent ones. The regular retirement process is expected to reduce total employment to 600 workers by 2006. However, it would be more cost effective for Delta to hire only 200 permanent workers, in addition to a number

of contract workers that varies throughout the ginning season. The permanent workers would then focus on quality control and supervision.

As for Misr Ginning, the labor structure is also divided into permanent and temporary labor. The total number of permanent workers is 928¹¹, while contract workers are around 450. The contract labor category encompasses workers that are hired for most of the year, as well as those hired to work during the seven-month ginning season only (Sept – March). Total employment was reduced from 1,360 workers in 1997/98 to 928 in 2000/01. Currently, the total annual wage bill of the company is around LE 10 million.

Misr Ginning implemented an early retirement program. At the first stage of the program, 204 employees left the company, followed by another group of 58 workers. The remaining reduction in employment (170) occurred through regular retirement procedures. The company has provided a rather attractive early retirement package that ranged from LE 17,000 to 36,000/employee, depending on their age and service period in the company. In addition, the company gave each employee LE 2000, as well as the monetary value of their vacations with a maximum amount of 3 months. The total cost of the early retirement program was around LE 6.14 million divided into 4,714,000 LE for the first stage and 1,426,000 for the second stage. The ERP was funded through the holding company.

Arabia Ginning implemented its own ERP after privatization. The company has 640 permanent workers, in addition to 280 seasonal ones. No worker was forced to take early retirement; still, the company offered an early retirement package of LE 22,800/worker. Through the ERP, 200 workers have been released at a total cost of LE 4.5 million. In 2001, total labor costs stood at LE 6.2 million, down from LE 7.0 million since 1997.

4.3 Post-Privatization Performance

The privatization of the Arabia and Nile ginning companies has proven to be a successful exercise, especially in the case of Arabia Ginning. The following section will discuss the post-privatization improvements in terms of technical and managerial improvements, competition and market shares, and financial performance of the privatized companies.

4.3.1 Technical and Managerial Improvements

Arabia's majority shares are owned by the Modern Nile group with 63% of the shares, the Mahmoud Abu Ghareeb Group with 17%, while the Employees Shareholder Association and Unirab have 10% each. There are 11 board members, where each group of shareholders is proportionally represented.

The new ownership of Arabia Ginning has introduced significant technical and managerial changes to the company, specifically improving seed-cotton cleaning and preparing lint cotton for direct export

¹¹ The number of permanent workers is obtained through interviews with the management of Misr Ginning in early 2002; therefore, it is slightly different than that reported by MPE for the fiscal year 2000/01.

from gins. At the time of privatization in 1996/97, the company had 12 gins; 8 in the Delta and 4 in Upper Egypt. By the end of 1999, the new management had selected 9 gins for major improvements and intended to close the remaining ones in Damanhour #1, Tanta, and Fayoum. By the end of February 2002, the company closed the gins in Simbelawein, Dessouk, and Fayoum. In 2000/01, the gin in Dessouk was replaced by a new one in Kafr El-Sheikh and a new gin was established right outside Fayoum to replace the one that was shut down, while the gin in Damanhour #1 has been completely refurbished. Thus Arabia Ginning has a total of 10 gins currently in operation: 6 in Delta and 4 in Upper Egypt.

Table 4-1: Employment in Selected Textile & Ginning Companies, 1996/97 - 2000/01

Company	No.of Workers		%	Ave. Wage		%	Wage Bill (Mil EGP)		%
	1996/97	2000/01		1996/97	2000/01		1996/97	2000/01	
Ginning Companies			Change			Change			Change
Delta Cotton Ginning	989	742	-25.0%	8,526	12,737	49.4%	8.43	9.45	12.1%
Misir Cotton Ginning	1,328	947	-28.7%	6,730	10,648	58.2%	8.93	10.08	12.9%
El Wady Cotton Ginning	827	650	-21.4%	9,632	7,317	-24.0%	7.96	7.00	-12.1%
Subtotal Public Ginning Co.	3,144	2,339	-25.6%	8,296	10,234	23.4%	25.32	26.53	4.8%
Privatized Co.*								7.49	
Arabia Ginning	840	640	-23.8%	8,333	6,562	-21.3%	7.00	6.20	-11.4%
Nile Ginning**	710	680	-4.2%	-	-		-	-	
Subtotal Private Ginning Co.	1,550	1,320	-14.8%	8,333	6,562	-21.3%	7.00	6.20	-11.4%
Spinning & Weaving Co.									
Misir S&W - Mahala	28,700	27,881	-2.9%	5,898	7,447	26.3%	169.27	207.62	22.7%
Nasr S&W - Mahala	8,133	6,218	-23.5%	5,000	7,252	45.0%	40.66	45.09	10.9%
Shebin El-Kom S&W	7,456	6,002	-19.5%	7,234	9,535	31.8%	53.93	57.22	6.1%
Delta S&W	6,628	5,038	-24.0%	4,633	5,742	23.9%	30.70	28.92	-5.8%
Misir Helwan S&W	10,547	6,208	-41.1%	5,448	6,433	18.1%	57.46	39.93	-30.5%
El Seyouf S&W	5,845	4,826	-17.4%	4,686	6,393	36.4%	27.38	30.85	12.7%
Mit Ghamr Spinning	-	2,350		-	11,676			27.43	
Sharkeya S&W	3,907	2,181	-44.2%	3,898	5,430	39.3%	15.22	11.84	-22.2%
National S&W	4,085	2,662	-34.8%	4,806	7,014	45.9%	19.63	18.67	-4.9%
Middle Egypt S&W	5,041	2,640	-47.6%	4,123	5,955	44.4%	20.78	15.72	-24.4%
Port Said S&W	1,379	1,154	-16.3%	6,843	9,319	36.2%	9.43	10.75	14.0%
Kom Hamada S&W	-	2,078		-	6,271			13.03	
El Mahmoudeya S&W	-	1,279		-	6,704			8.57	
Menya El Kamh S&W	-	-		-	-				
Misir Fine Spinning-Kare El Dawar	21,852	15,203	-30.4%	4,847	6,829	40.9%	105.91	103.82	-2.0%
Damietta S&W	4,355	3,996	-8.2%	5,206	6,544	25.7%	22.67	26.14	15.3%
Dakahlia S&W	7,909	3,440	-56.5%	5,068	6,871	35.6%	40.08	23.63	-41.0%
Upper Egypt S&W	6,150	3,568	-42.0%	4,570	6,494	42.1%	28.10	23.17	-17.5%
Al Nasr Wool-STIA	6,007	4,977	-17.1%	6,086	8,800	44.6%	36.55	43.79	19.8%
Subtotal public Textile Co.	127,994	101,701	-20.5%	5,223	7,262	39.0%	677.77	736.19	8.6%
Privatized Co.*									
Alex.S&W ^a	3,569	3,395	-4.9%		3,600			12.22	
KABO***	5,400	4,800	-11.1%	4,563			24.6		
UNIRAB ^a	7,550	7,470	-1.1%	5,375	4,500	-16.3%	40.60	33.60	-17.2%
Subtotal Privatized Textile Co.	16,519	15,665	-5.2%	4,969	4,050	-18.5%	65.24	45.82	-29.8%

Source: MPE

Notes: * The data for privatized companies was obtained through interviews. The data reported here is for permanent workers.

** Figure for Nile Ginning are for 1999/2000 to March, 2002

*** The figures report employment at the time of privatization until March, 2002. Average wage corresponds to the 1995/96 figure.

^a Employment figures refer to May, 1998 and June, 2001 and were obtained through MVE spinner surveys. Wages in 2001 refer to salaries only and do not include any other bonuses or benefits.

Table 4-2: Achievements of Early Retirement Program, 1996/97-2000/01

Company	No. Workers		% ERP	Estimated Cost/Worker	Total ERP Cost	Annual savings after ERP
Ginning Companies	1996/97	ERP*				
Delta Cotton Ginning	989	73	7.4%	23,288	1,700,000	700,000
Misir Cotton Ginning	1,328	262	19.7%	23,382	6,126,206	1,000,000
El Wady Cotton Ginning	827	0				
<i>Sub-Total Public Co.</i>	<i>3,144</i>	<i>335</i>	<i>10.7%</i>	<i>23,335</i>	<i>7,826,206</i>	<i>1,700,000</i>
Privatized Co.						
Arabia Ginning	840	200	23.8%	22,800	4,560,000	1,312,400
Nile Ginning	710	5	0.7%	23,288	116,440	32,810
<i>Sub-Total Privatized Co.</i>	<i>1,550</i>	<i>205</i>	<i>13.2%</i>	<i>23,044</i>	<i>4,676,440</i>	<i>1,345,210</i>
Sub-Total Ginning Industry	4,694	540	11.5%	23,190	12,502,646	3,045,210
Spinning & Weaving Co.						
Misir S&W - Mahala	28,700	0				
Nasr S&W - Mahala	8,133	300	3.7%	18,333	5,500,000	2,175,600
Shebin El-Kom S&W	7,456	517	6.9%	22,369	11,565,000	4,929,595
Delta S&W	6,628	789	11.9%	22,940	18,100,000	5,100,000
Misir Helwan S&W	10,547	2,899	27.5%	21,973	63,700,000	
El Seyouf S&W	5,845	0				
Mit Ghamr Spinning**	2,852	502	17.6%	23,506	11,800,000	1,800,000
Sharkeya S&W	3,907	690	17.7%	23,188	16,000,000	3,200,000
National S&W	4,085	602	14.7%	23,807	14,332,055	4,222,428
Middle Egypt S&W	5,041	1,851	36.7%	15,883	29,400,000	10,000,000
Port Said S&W	1,379	0	0.0%			
Kom Hamada S&W	-	0				
El Mahmoudeya S&W	-	0				
Menya El Kamh S&W	-	0				
Misir Fine Spinning-Kare El Dawar	21,852	1,172	5.4%	24,793	29,056,836	8,003,588
Damietta S&W	4,355	0	0.0%		0	
Dakahlia S&W	7,909	503	6.4%	25,050	12,600,000	2,800,000
Upper Egypt S&W	6,150	1,062	17.3%	19,115	20,300,000	9,000,000
Al Nasr Wool-STIA	6,007	0	0.0%			
Privatized Co.						
Alex.S&W	3,200	0	0.0%		0	
KABO	5,400	0	0.0%		0	
UNIRAB	n/a	n/a		n/a	n/a	
Sub-Total Textile Co.	139,446	10,887	7.8%	21,905	16,596,707	51,231,211
Total/Average	144,140	11,427	7.9%	22,547	29,099,353	54,276,421

Source: MPE 2001, SWRMC HC Report, 2001, and MVE interviews.

* Cumulative No. of Workers since the beginning of the privatization program.

** Total number of workers are estimated for June, 2000.

At nine of its gins, Arabia has installed both fixed seed cotton opening tables and the conveyor system, which vibrates the seed cotton to get rid of dust and dirt. In two gins Arabia has installed pneumatic suction systems and automatic stand feeding systems. In addition, Arabia has installed new gin stands imported from India in three of its gins. The new stands, with new rollers, are more productive than the old stands and have the advantage of saving energy, as their power consumption is 15% less than traditional stands. Arabia started using the new equipment in 1997/98 with only 8 stands; it then began to import the rollers only and fabricate the stands locally. Currently, Arabia has 144 stands with Indian rollers and is planning to gradually replace all of its equipment. The price of the each stand is only 60% of that of the English (Platt) stands including custom duties. By taking out a loan at 8% when the exchange rate was \$1=3.43, Arabia has benefitted from the low interest rate as well as the appreciating dollar. Dollars earned by exporting lint (through affiliated company Modern Nile) can be converted at a higher rate into Egyptian pounds, effectively making the loan in LE lower cost.

Arabia has also introduced full mechanized feeding of ginning stands in two of its gins. In all other gins, mechanized feeding has been partially implemented. The new feeding technique has proved to be more efficient, as it increased output by 35% per unit of time.

In order to ensure the quality of ginned cotton, the new management of Arabia has established a quality control department to review ginning operations at each gin, where a quality control inspector is stationed. The inspector is responsible for ensuring the quality of cotton at every stage, starting from receiving the cotton until the proper completion of the ginning process

Given the location of six of Arabia's gins in the Delta, where export varieties are planted, the new management has installed new UD bale presses to export cotton directly from those gins. This new pressing system reduced costs of shipping and pressing below those at the Egyptian Pressing Co. in Alexandria, which has been the standard facility to press Egyptian cotton for export. Cotton is now pressed into smaller and denser bales than the traditional ones, which reduces export shipping costs. Arabia has modified the sizes of its bales to conform with the international standard bale sizes and maximize the quantity of cotton shipped per container, as the UD bales are denser than the larger less dense Egyptian bales. In addition, Arabia – as well as Nile Ginning – contribute to reducing costs for other exporters, as they provide repressing services for LE 8 – 11/lk, which is considerably lower than the repressing charge of LE 19.5/lk in Alexandria. The provision of this service at a lower rate by Arabia even led the Alexandria Pressing Co. to cut its fees considerably. Fobbing costs have dropped from 17 cents/lb. to 10 cents/lb., largely at the expense of the pressing company's margins¹². Note that industry sources estimate that about two-thirds of the Egyptian exports are pressed at gins into UD bales, up from nothing in 1996/97 and small volumes in the late 1990s.

Nile Ginning has the same ownership structure after privatization as Arabia in that 90% of its shares are privately owned and the remaining 10% are owned by the employee shareholder association. Although the improvements at Nile Ginning have not matched the scale of those of Arabia Ginning, they can still

¹² Fobbing costs include all the ex-gin costs of transport, pressing, and port handling to the point of export shipment.

be considered major. Since privatization, Nile Ginning has equipped three of its gins with UD bale presses and with farfarra facilities to prepare cotton for export.

4.3.2 Competition and Market Share

Given the excess capacity in the industry, ginning activity is not a very profitable activity. The 'official' ginning fee has been fixed at LE 18.5/lk since 1998/99 and companies try to capture market share by offering other services, such as transport rebates. Public sector companies are not concerned about making profits as much as they seek to capture market share in order to cover their fixed costs and minimize losses. On the other hand, given the excess capacity in the industry, private companies acquire cost-minimizing technology to improve quality and maximize profits.

Companies in the ginning industry cannot openly compete on price, as there is an 'official' ginning rate of LE 18.5/lk. However, public sector companies often extend discounts in the form of transportation rebates of LE 2-3/lk and sometimes those rebates can be as high as LE 7/lk, as reported by one informant. Private ginning companies cannot extend such generous cuts in rates, as they have to maximize profits and recover the cost of their new investments. They can only compete by providing better services and quality. In this regard, Arabia has made significant improvements with its investments in the new Indian ginning machines that can actually improve the cotton quality by 3/8 of a grade, which is worth LE 18/lk, which is virtually the ginning charge. Most trading companies, however, especially those supplying domestic spinners, are more eager to get a cut in ginning charges rather than improve the quality of the ginned cotton. Exporters, on the other hand, are interested in increasing the grade of ginned cotton.

With regards to ginning industry shares, the private sector market share has been stable over the entire period from 1997/98 – 2000/01. Moreover, the privatized companies, Arabia and Nile have retained roughly the same market share as before privatization. The stability of market share may reflect, however, the stagnation of the ginning industry rather than the ability of private companies to compete with each other and with the public companies. Moreover, the existence of public ginners in the market introduces institutional factors that affect the market other than price and quality of service. These factors include administrative allocation of public gins market shares, fixed ginning charge, and limitations on dealings with the private sector. For instance, it is reported that public trading companies were ordered by the HC not to deliver their cotton to private companies in 2001/02. This resulted in the decline of market shares of the privatized companies to 33.2% this year from 41.6% in 2000/01, while individual ginning companies witnessed a decline in market share of 4.2% for Arabia Ginning and 4% for Nile Ginning.

4.3.3 Financial Performance

In addition to the limited number of companies that have been privatized, detailed and accurate information about the financial performance of the privatized companies is hard to come by. It is rather difficult to have access to a complete set of financial data before and after privatization to assess its impact on the companies. However, from the data available, the positive impact of privatization can be seen.

Apart from the technical improvements that new private management of Arabia Ginning has introduced, the company's financial performance has also noticeably improved. In 1995/96, which is the last year of public ownership of Arabia, the company was making a net income of LE 6.9 million and a short

while after privatization, the company's profits increased by over a million pounds and reached LE 8.7 million in 1997/98. The comparable level of profits persisted into 1998/99, when the company's net income stood at LE 8.3 million. (See Tables 4-3 and 4-4 for the financial performance of textile and ginning companies)

Nile Ginning, however, has not improved its financial performance as much as Arabia has. In fact, net income declined by 18% in the year immediately following privatization. Unfortunately, the MVE Unit did not have access to more recent financial data for Nile Ginning to assess its current financial performance.

With regards to the remaining public companies, their financial performance has generally declined; as the net incomes for Delta and Misr, the largest ginning companies, have actually declined by more than 22% and 30%, respectively, over the period 1995/96-2000/01. El-Wadi Ginning, on the other hand, has impressively shifted from making losses of LE 1.9 million to making profits of LE 4.2 million over the same period of time. See tables 5-4 and 5-5 on the financial performance of public and privatized ginning companies.

Table 4-3: Financial Performance for Textile and Ginning Companies, 1995/96 to 2000/01

Company	Earnings before Interest and Taxes (EBIT)			Net Income			Total Assets			Liabilities			Net Equity		
	95/96	97/98	2000/01	95/96	97/98	2000/01	95/96	97/98	2000/01	95/96	97/98	2000/01	95/96	97/98	2000/01
Ginning Companies															
Delta Cotton Ginning	8,554	20,045	9,517	8,207	12,508	6,339	87,207	128,878	139,025	45,686	67,689	47,692	41,521	61,189	53,248
Misr Cotton Ginning	6,515	24,907	6,664	5,797	12,137	4,040	103,608	188,930	149,858	54,526	131,555	55,042	49,082	57,375	64,447
El Wady Cotton Ginning	(1,289)	22,998	9,341	(1,987)	9,133	4,200	38,733	143,646	74,759	23,046	118,159	23,931	15,687	25,487	29,131
Privatized Co.															
Arabia Ginning ^a	7,718	9,094	9,894	6,956	8,734	8,338	34,777	40,597	44,007	1,438	6,666	31,810	30,974	28,234	27,518
Nile Ginning ^b	14,258	9,898		9,057	7,379			301,881			231,182			70,699	
Spinning & Weaving Co.															
Misr S&W - Mahala	43,487	60,070	(64,854)	9,500	23,453	(142,609)	1,102,738	1,011,203	1,707,140	824,387	703,509	1,003,024	278,351	307,694	90,705
Shebin El-Kom S&W	25,624	30,034	14,082	13,857	24,274	10,000	381,477	378,911	457,598	264,511	236,878	143,769	116,966	142,033	147,564
Delta S&W	1,395	13,477	(26,438)	(10,114)	2,964	(38,573)	209,303	212,032	267,967	181,548	195,131	174,916	27,755	16,901	(20,399)
Misr Helwan S&W	(202,316)	239,985	(41,066)	(203,357)	173,502	(128,962)	254,609	153,759	300,039	1,048,228	916,174	1,172,612	(793,619)	(762,417)	(1,054,087)
El Seyouf S&W	(24,493)	(7,999)	(36,747)	(54,073)	(39,532)	(74,210)	194,934	160,312	207,057	309,335	365,780	810,160	(114,401)	(205,468)	(375,847)
Mit Ghamr Spinning		(50,022)	(18,277)		(120,600)	(48,910)		127,438	151,203		291,387	309,225		(163,949)	(250,775)
Sharkeya S&W	(7,832)	11,504	(13,466)	(31,196)	(761)	(24,743)	205,139	102,645	201,177	270,090	150,783	175,565	(64,951)	(48,138)	(99,962)
National S&W	(22,780)	(14,134)	(17,357)	(78,700)	(78,785)	(131,625)	143,757	112,375	162,178	453,902	573,850	858,446	(310,145)	(461,475)	(779,847)
Middle Egypt S&W	(14,502)	61,982	(18,144)	(60,691)	19,279	(69,158)	165,664	133,310	161,043	414,682	459,880	573,142	(249,018)	(326,570)	(530,628)
Port Said S&W	(8,451)	(2,867)	(8,688)	(14,939)	(7,956)	(9,724)	61,683	51,628	681,660	81,740	91,281	75,925	(20,057)	(39,653)	(47,797)
Kom Hamada S&W			(8,741)			(8,795)			50,844			40,372			(12,460)
El Mahmoudeya S&W			(5,925)			(5,927)			14,153			20,433			(11,868)
Menya El Kamh S&W		8,815	(2,551)		(1,744)	(18,823)		95,429	154,200		144,233	165,656		(48,804)	(47,817)
Misr Fine Spinning-Kafr El Dawar	(58,768)	(61,037)	(115,519)	(178,263)	(189,926)	(252,780)	963,240	712,053	937,195	1,167,008	1,315,202	1,700,224	(203,768)	(603,150)	(1,243,725)
Damietta S&W	(3,770)	447	(19,118)	(19,164)	(29,884)	(69,456)	296,159	272,086	352,021	252,893	292,163	389,820	43,266	(20,077)	(165,027)
Dakahlia S&W	(50,833)	28,916	(21,881)	(79,962)	8,361	(56,777)	317,465	312,128	415,580	413,173	359,112	444,874	(95,707)	(46,984)	(141,403)
Upper Egypt S&W	(6,540)	(5,438)	(12,938)	(29,932)	(39,977)	(50,871)	97,340	99,230	217,109	19,651	28,851	419,715	(112,574)		(323,637)
Al Nasr Wool-STIA	28,232	18,370	(4,346)	25,000	13,300	(15,946)	326,900	346,621	386,952	232,632	244,812	209,335	94,268	101,809	46,947
Privatized Co.															
Alex.S&W															
KABO	28,595	9,186		22,638	7,676		109,477	3,109,267		0	141,428		138,925	155,358	

UNIRAB^d	32,500	10,170		17,144	10,142		242,157	801,864		306,531	612,385		166,043	189,479	
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Source: MPE

EBIT=Net Income+Taxes+Interest Payments.

^a The most recent financial data available for Arabia corresponds to June, 99, which is used instead of June, 2001.

^b Financial figures for Nil Ginning corresponds to the calendar years 1997 and 1998. Nile Ginning was privatized in July 1997; however, the only data available on performance before privatization is for the calendar year 1997. The year 1998 is the first year of private operations. Therefore, figures for 1997 are used instead of 1995/96 and figures for 1998 instead of 1997/98

^c For 200/01 data, Liabilities are calculated as the sum of current liabilities and total bank loans. Other liabilities may exist and were not included in this variable. For privatized companies, Total Liabilities refer to bank loan only, except for UNIRAB in 97/98 and Arabia Ginning in 98

^d For UNIRAB in 97/98, Total Equity is used instead of Net Equity

Table 4-4: Change in Financial Performance in Textile and Ginning Companies, 1995/96 to 2000/01

Company	Earnings before Interest and Taxes (EBIT)					Net Income (Profit/loss)						
	95/96	97/98	% change 96-98	2000/01	%change 98-01	95/96	97/98	% change 96-98	2000/01	%change 98-01	95/96	
Ginning Companies												
Delta Cotton Ginning	8,554	20,045	134%	9,517	-52.5%	8,207	12,508	52.4%	6,339	-49.3%	41,521	
Misir Cotton Ginning	6,515	24,907	282%	6,664	-73.2%	5,797	12,137	109.4%	4,040	-66.7%	49,082	
El Wady Cotton Ginning	-1,289	22,998		9,341	-59.4%	-1,987	9,133		4,200	-54.0%	15,687	
Total Average	13,780	67,950	393%	25,522	-62.4%	12,017	33,778	181.1%	14,579	-56.8%	106,290	
Privatized Co.												
Arabia Ginning ^a	7,718	9,094	18%	9,894	8.8%	6,956	8,734	25.6%	8,338	-4.5%	30,974	
Nile Ginning ^a	14,258	9,898	-31%			9,057	7,379	-18.5%				
Total Average	21,976	18,992	-14%		8.8%	16,013	16,113	0.6%		-4.5%		
Spinning & Weaving Co.												
Misir S&W - Mahala	43,487	60,070	38%	-64,854		9,500	23,453	146.9%	-142,609		278,351	
Shebin El-Kom S&W	25,624	30,034	17%	14,082	-53.1%	13,857	24,274	75.2%	10,000	-58.8%	116,966	
Delta S&W	1,395	13,477	866%	-26,438		-10,114	2,964		-38,573		27,755	
Al Nasr Wool-STIA	28,232	18,370	-35%	-4,346		25,000	13,300	-46.8%	-15,946		94,268	
Sub-Total	98,738	121,951	24%	-81,556	-166.9%	38,243	63,991	67.3%	-187,128	-392.4%	517,340	
Misir Helwan S&W	-202,316	239,985		-41,066		-203,357	173,502		-128,962		-793,619	
Nasr S&W - Mahala				-25,813					-75,247		-119,090	
El Seyouf S&W	-24,493	-7,999	-67%	-36,747	359.4%	-54,073	-39,532	-26.9%	-74,210	87.7%	-114,401	
Mit Ghamr Spinning		-50,022		-18,277	-63.5%		-120,600		-48,910	-59.4%		
Sharkeya S&W	-7,832	11,504		-13,466		-31,196	-761	-97.6%	-24,743	3151.4%	-64,951	
National S&W	-22,780	-14,134	-38%	-17,357	22.8%	-78,700	-78,785	0.1%	-131,625	67.1%	-310,145	
Middle Egypt S&W	-14,502	61,982		-18,144		-60,691	19,279		-69,158		-249,018	
Port Said S&W	-8,451	-2,867	-66%	-8,688	203.0%	-14,939	-7,956	-46.7%	-9,724	22.2%	-20,057	
Kom Hamada S&W				-8,741					-8,795			
El Mahmoudeya S&W				-5,925					-5,927			
Menya El Kamh S&W		8,815		-2,551			-1,744		-18,823	979.3%		
Misir Fine Spinning-Kare El Dawar	-58,768	-61,037	4%	-115,519	89.3%	-178,263	-189,926	6.5%	-252,780	33.1%	-203,768	
Damietta S&W	-3,770	447		-19,118		-19,164	-29,884	55.9%	-69,456	132.4%	43,266	
Dakahlia S&W	-50,833	28,916		-21,881		-79,962	8,361		-56,777		-95,707	
Upper Egypt S&W	-6,540	-5,438	-17%	-12,938	137.9%	-29,932	-39,977	33.6%	-50,871	27.3%	-112,574	
Average /total	-400,285	210,152		-366,231		-750,277	-308,023	-58.9%	-	233.1%	-	
									1,026,008		2,040,064	
Privatized Co.												
Alex.S&W												
KABO	28,595	9,186	-68%			22,638	7,676	-66.1%			138,925	
UNIRAB ^c	32,500	10,170	-69%			17,144	10,142	-40.8%			166,043	
Total Average	61,095	19,356	-68%			39,782	17,818	-55.2%			304,968	

Source: MPE

EBIT=Net Income+Taxes+Interest Payments

^a The most recent financial data available for Arabia corresponds to June,1999, which is used instead of June, 2001

^bFinancial figures for Nil Ginning corresponds to the calender years 1997 and 1998. Nil Ginning was privatized in July 1997; however, the only data available on performance before privatization is for the calender year 1997. The year 1998 is the first year of private operations. Therefore, figures for 1997 are used instead of 1995/96 and figures for 1998 instead of 1997/98

^c For 200/01 data, Liabilities are calculated as the sum of current liabilities and total bank loans. Other liabilities may exist and were not included in this variable.

For privatized companies, Total Liabilities refer to bank loan only, except for UNIRAB in 1997/98 and Arabia Ginning in 98

^dFor UNIRAB in 1997/98, Total Equity is used instead of Net Equity

5. PRIVATIZATION OF SPINNING COMPANIES

5.1 Privatization Achievements

The privatization program in the public sector textile companies has progressed rather slowly. The privatization achievements to date in this sector are as follows: three companies were majority sold through the stock market (Unirab, Alexandria Spinning & Weaving, and KABO), one company was sold to an anchor investor (Bolivara), and another was liquidated (Cairo Silk). In addition, production units were leased through long-term contracts in four companies: Sharkia S&W (Menya el-Kamh), Industrial Shops for Cotton (refurbished factory – DIP Egypt), Dakhahila Spinning & Weaving (RMG Aga factory) and Cairo for Dyeing (dyeing and fibers factory). In addition, the SWRMC-HC negotiates and implements contracts with international management firms for Misr-Helwan S&W, Nasr S&W in Mahala, Shourbagy, and Misr for Artificial Silk. See tables 5-1a and 5-1b for the achievements of privatization in the cotton subsector.

Table 5-1a: Sale and Share Data for Privatized Ginning and Textile Companies

Company	Selling Date	Selling Method	Sold%		Current HC Share	Sale Value (Million L.E)			Date of Final Approval to Law 159 Status
			Private Sector	ESA		Private Sector	ESA	Total	
Arabia Ginning	09/01/96	Stock Market	90.0%	10%	-	82.3	4.8	87.1	12/21/96
Nile Ginning	01/01/97	Stock Market	90.0%	10%	-	274.8	20	294.8	7/27/97
UNIRAB	94/98	Stock Market	60.4%	6.9%	32.7%	103	122.7	225.7	5/5/97
Alex. Spinning & Weaving	95/98	Stock Market	94.6%	5.4%	-	77	5.4	82.4	-
KABO	11/06/97	Stock Market	93.0%	-	7.0%	196.9	-	196.9	5/18/96
Bolivara	6/30/97	Anchor Investor	100.0%			32.8		32.8	-
Cairo for Silk Textiles	01/07/98	Liquidated	-	-	-	-	-	-	-

Source: MPE, *Privatization Achievements*, December 31, 2001.

Privatization in the textile industry started in 1994, when the HC sold 8.5% of its shares in the United Arab for Spinning & Weaving (UNIRAB) through the stock market. Later in early 1997, the HC floated an addition 21.7% of the shares. The status of UNIRAB was transferred to that of a Law 159 company in May 1997. The current structure of shareholders is as follows: HC (32.7%), ESA (6.9%), and private individuals (60.4%) through the stock market.

As for KABO, the HC started selling shares in 1995, when 8.15% of the shares were sold to the public, hence the HC's ownership fell from its original level of 78% to 69.85%. Later in June 1997, the HC sold all of its shares, except for 7% that it still holds. Currently, investment funds, banks, and private individuals own 93% of the shares; of which the Samir Riad Group owns a significant portion, while the HC still keeps its 7% of shares. The exact breakdown of shares within the private sector was not available at the time of writing this report.

Table 5-1b: Date and Value of Leased Textile Companies

Company	Leased Units	Leasing Date	Book-Value of Leased Asset (Million LE)	Annual Rent (Million LE)	Contract Period	Lessee
Dakhalia Spinning & Weaving	Aga Factory	05/08/97	-	1.56	5 Years	Egyptian-Taiwanese Joint-Venture
Industrial Shops for Cotton (ESCO)	New Factory	10/15/97	-	US\$ 750,000+3% of FOB Sale	10 Years	DIP-Egypt
Sharkia Spinning & Weaving	Menya el-Kamh	07/01/99	44.73	9.00	5 Years	Private Entrepreneur
Cairo Dyeing	Dyeing and Fibers Factories	10/01/99	2.00	1.96	5 Years	-

Source: MPE, *Privatization Achievements*, December 31, 2001

Alexandria Spinning & Weaving was first offered for sale in December 1994, when the HC sold 10% of its shares to individuals and investment funds. Later in June 1997, the company was fully privatized; the private sector owns 94.6% of the shares and ESA controls 5.4%. The approximate current structure of shares is as follows: KABO (54%), Misr Insurance (20%), individuals (20%), and ESA (5.4%)

Given Bolivar's poor financial situation, the HC transferred its equipment and its labor force (880 workers) to Unirab. Following this transfer, the HC was able to sell off Bolivar's facilities as empty land, which was a good source of liquidity to the HC, as the company was within the city limits¹³. Finally, Cairo Silk Company was liquidated in July 1998 and its employees were transferred to the HC.

Until June 2000, there existed 37 companies affiliated to three holding companies; the Spinning & Weaving and Ready-Made Garments, Textile Manufacturing & Trade, and Cotton & International Trade. The three textile holding companies were merged under one company, which is the Holding Company for Cotton, Spinning & Weaving and Ready-Made Clothes (SWRMC). This merger took place to facilitate the coordination and implementation of restructuring activities aiming at privatizing textile companies. At the time of the merger, the newly formed HC had 37 affiliated companies. As a result of a reorganization process that included merging and splitting some affiliated companies, the SWRMC Holding Company currently has a portfolio of 39 companies; of which 29 are involved in spinning and weaving and the other 10 companies¹⁴ are ginning, trade and pressing companies.

¹³ It is ironic that the HC permitted Bolivar land to be sold off when this has not been allowed for ginning companies.

¹⁴ The 10 non-textile companies included 3 ginning companies, 6 trading companies, and the Alexandria Pressing Company.

5.2 Performance of Textile Companies¹⁵

The overall performance of the SWRMC-HC has been deteriorating over the past five years. In June 1997, revenues of the HC were more than LE 6.3 billion and by June 2001, current revenues declined to LE 2.9 billion, which represents a nominal decline of 53.9% from the 1997 figure. The same is true for total revenues, which stood at LE 7.8 billion in June 1997 and declined by 51.3% to reach LE 3.8 billion in June 2001. Earnings before taxes for profit making companies affiliated with the HC declined from LE 2.4 million in 1997 to 1.1 million in June 2001, which represents a decrease of 54%. Loss-making companies incurred increasing losses over the five-year period. In June 1997, their losses were LE 1.3 billion, which increased to LE 1.7 billion in June 2001, i.e. losses increased by 30.7%. Accumulated losses continued to mount from LE 5.2 billion in 1997 to LE 9.6 billion in 2001. Bank loans have also been mounting for the last 5 years. Long-term loans have increased by 77% from LE 1.3 billion in 1997 to LE 2.3 billion in June 2001. An important point to note is that the financial performance of the SWRMC-HC has been deteriorating at an increasing rate over the past five years, i.e. losses have been accumulating more rapidly in recent years. In other words, the financial performance of public sector textile companies is actually worsening over time.

The previous figures reflect the financial situation across the whole SWRMC-HC; however, it is enlightening to distinguish between textile companies (29 ACs) and other cotton and trade companies (10 ACs). It is also important to distinguish within the 29 textile companies, between cotton-related and non-cotton related textile ACs. Such distinction would paint a clearer picture about the source of financial burdens and losses within the SWRMC-HC.

In the annual report presented to the board of the SWRMC-HC at the close of 2000/01 FY, the HC identified interest payments and wages for redundant labor to be the main sources of losses and the continued poor financial performance in the ACs. Excluding the non-textile companies, the HC was burdened by LE 1 billion of accumulated interest payments in June 2001, up from slightly less than LE 900 million in 2000. In addition, the burden of redundant labor wages is up 4.4% from LE 226 million in 2000 to LE 236 million in 2001, with higher salaries offsetting lower number of workers.

Comparing these figures with those for all affiliated companies¹⁶, we note that accumulated interest for the non-textile companies has considerably declined by 170 million from around LE 500 million in 2000 to around LE 330 million in 2001, while the interest burden for the 29 textile companies increased by almost LE 119 million from June 2000 to June 2001.

¹⁵ Data obtained from MPE.

¹⁶ Discrepancies between the SWRMC-HC annual report and the MPE report exist; however, the figures can definitely provide reasonably accurate information about the relative importance of different types of companies for the HC's debt and interest burden. The total interest payment burden obtained from MPE report shows that for all 39 companies, the HC was burdened by LE 1.34 billion in 2001 and 1.39 billion in 2000. While the HC annual report shows that for the 29 textile companies, accumulated interest stood at over LE 1.01 billion in 2001 and around 900 million in 2000. Thus the difference between the two sources provides the interest burden for the 10 non-textile companies.

Leaving the non-textile companies out of the analysis for now and focusing on the cotton and non-cotton textile companies, we note that the interest burden for all 29 companies, has increased by 13.3% between June 2000 and June 2001. This increase comes as a result of the hike in accumulated interest burden for the cotton-textile companies, which increased by 20.5%, since the accumulated interest for the non-cotton textile companies actually declined by 3.4%.

The second source of financial burdens that drains the resources of the affiliated companies is the cost of redundant labor. Although the wages of redundant labor were only 4.4% higher than in 2000, this small change masks the fact that the increase in wages for redundant labor was actually 17.6% for cotton-textile companies. On the other hand, there was a decrease in this burden by 18.1% for the non-cotton textile companies.

In order to reduce the burden of redundant labor, the HC must implement an early retirement program. The HC studied the needs of each affiliated company and estimated the cost of an ERP in each company. The HC reported that 26 companies have redundant labor amounting to 43,367 workers, which is 32.4% of the current labor force in those 26 textile companies. The total cost of the ERP would be close to LE 976.9 million,¹⁷ more than half (61.4%) of which is estimated to release the redundant workers in the cotton-textile companies. See table 5-2 for the redundant labor and the estimated cost of ERP in each affiliated company.

Given the previous observations, it is safe to conclude that the main source of drainage on the resources of the SWRMC-HC is actually the cotton-textile companies, which are the ones that are hardest to privatize. In fact, some informants noted that the HC could actually privatize the ginning companies if it decided to. However, it is not very eager to do so, as ginning companies are among the few profit-making companies within the portfolio of the HC. For the financial data for ginning and cotton-textile companies, see tables 4-3 and 4-4.

It would be informative to assess the performance of public companies over time. In tables 4-3 and 4-4 that show the financial data for the SWRMC-HC, 19 companies are included. Those are the companies whose main activity is spinning and weaving of cotton or cotton blends. For those 19 companies, only 4 are considered to be profit making, since they made positive earnings between 1995/96-1997/98, while the rest have incurred losses over the same period. During this period, the profit-making companies increased their earnings and profits by an impressive 23.5% and 67.3% respectively, mostly due to the leap in the earnings figures for Delta Spinning and Weaving and profits of Misr-Mehalla S&W.

By 2001, 3 out of the 4 profitable companies have realized negative earnings and profits; only Shebeen El-Kom continued to make positive earnings; however, its earnings and net income decreased by 53.1% and 58.8% respectively. Net equity stayed positive for all 4 companies between 1995-2001, except for Delta S&W in 2000/01.

¹⁷ This would lead to an average ERP payment of LE 23,409/worker.

Table 5-2: Redundant Labor and Estimates of the Cost of an ERP in the SWRMC-HC, as of June 2001

Company	Total Labor*	Optimum Labor	Redundant Labor	%	Cost of ERP/Worker	Total Cost of ERP ('000)
Cotton-Textile						
Misr-Helwan	6,216	3,635	2,581	41.5%	35,180	90,800
Dakahlia S&W	3,508	3,508	0	0.0%		0
Meet Gharm S&W	2,400	1,999	401	16.7%	23,691	9,500
Sharkia S&W	2,816	2,316	500	17.8%	30,000	15,000
Misr-Kafr El-Dawar	16,882	11,176	5,706	33.8%	19,979	114,000
El-Seouf	5,182	2,658	2,524	48.7%	20,206	51,000
Ahlia S&W	3,512	1,412	2,100	59.8%	20,286	42,600
Port-Said S&W	1,208	700	508	42.1%	20,000	10,160
Kom Hammada S&W	2,148	1,000	1,148	53.4%	20,000	22,960
Mahmoudia S&W	1,343	700	643	47.9%	20,000	12,860
Nasr Wool-STIA	4,986	3,500	1,486	29.8%	20,000	29,720
Upper Egypt S&W	3,880	2,380	1,500	38.7%	20,000	30,000
Middle Egypt S&W	3,797	2,587	1,210	31.9%	18,182	22,000
Shourbagy	2,100	1,690	410	19.5%	17,073	7,000
Delta S&W	5,239	3,739	1,500	28.6%	20,000	30,000
Misr-Mahala S&W	28,133	23,633	4,500	16.0%	20,000	90,000
Shebeen El-Kom S&W	5,746	4,621	1,125	19.6%	20,000	22,500
Sub-Total	99,096	71,254	27,842	28.1%	21,537	600,100
Non-Cotton-Textile						
Artificial Silk	7,213	3,542	3,671	50.9%	32,770	120,300
Estern Co. for Cotton & Linen	2,405	1,781	624	25.9%	22,436	14,000
Cairo Dying & Finishing	622	0	622	100.0%	20,900	13,000
Mahala Dying	7,620	3,721	3,899	51.2%	19,877	77,500
Beda Dying	5,172	3,629	1,543	29.8%	29,812	46,000
Wooltex	4,344	2,644	1,700	39.1%	21,553	36,640
Spinning Equipment	578	462	116	20.1%	20,000	2,320
Goot Products	2,691	1,841	850	31.6%	20,000	17,000
ESCO	4,086	1,586	2,500	61.2%	20,000	50,000
Sub-Total	34,731	19,206	15,525	44.7%	23,039	376,760
Grand Total	133,827	90,460	43,367	32.4%	22,288	976,860

Source: SWRMC-HC Report to the Board

* Discrepancy may occur between these figures and those obtained from MPE and presented in the table
Achievement of ERP

As for the loss making companies, their earnings went from negative (LE -400 million) to positive (LE 210 million) between 1995/96 to 1997/98, largely because Misr-Helwan S&W went from making negative earnings of over LE 200 million to making positive earnings of close to LE 240 million. By contrast, from 1997/98-2000/01, they went back to realizing negative earnings of over LE 366 million. Net income followed a similar pattern over time, as losses decreased by almost 59% until 1997/98, but sharply increased again by over 200% between 1997/98 and 2000/01. Net equity stayed negative over the six-year period in question; however, it decreased by 44% between 1995/96-1997/98 compared to 86% between 1997/98-2000/01.

The general observation to make about the performance of textile companies over the period 1995/96-2000/01 is that performance was much better and even improved in some cases in the first half of this time frame (1995/96-1997/98), but that it deteriorated seriously from 1997/98 to 2000/01. This is especially true for public companies, since the profit-making ones started to show losses. Unfortunately, there is not enough information available for the privatized companies to compare performance over the 1997/98-2000/01 period. However, net equity increased by 13% for privatized companies compared to 9.9% for the profit-making public companies between 1995/96-1997/98, which may suggest better initial performance by privatized companies.

The explanation for this pattern of financial performance over the past six years may be found in the production and domestic utilization of cotton over this period. Since the beginning of the 1990s and until 1997/98, cotton production had been fluctuating considerably from one year to the next, with an average output of 6.3 million lk. In the two years from 1995/96 to 1997/98, cotton production was rather large, with an average of 6.85 million lk. However, in 1998/99, production seriously declined to 4.6 million lk, which was a 32% drop from the previous year's output. The low levels of output persisted into 2000/01, where the average output for the three years 1998/99-2000/01 was 4.5 million lk. See table 5-3 for Egyptian cotton supply and utilization, 1990/91-2000/01.

The sharp rise from the 1995/96 level of cotton output to 1997/98 can explain the sharp increase in the earnings and profits of public ginning companies. A large cotton crop means more business for the ginning companies and larger than average capacity utilization. Therefore, ginning companies, especially public ones, showed a dramatic improvement in their financial data between 1995/96 and 1997/98. When the crop size dropped again in 1998/99 and continued to drop steadily for the following two years, sales revenues, earnings and profits dropped as well and continued to decrease through 2000/01.

The same logic also applies to the spinning companies. The amount of lint spun determines the rate of capacity utilization in the industry, which in turn affects companies' costs and revenues. The average domestic utilization of Egyptian lint since the beginning of the 1990s to 1995/96 was 4.8 million lk. For the period from 1995/96-1997/98, it decreased slightly to 4.2 million lk, and for 1997/98-2000/01 average utilization declined further to 3.1 million lk. Since 1997/98, domestic utilization of lint has been decreasing. This took place in the form of a 20% decline in domestic utilization from 1997/98-1998/99, as well as an additional 22% decline in the following year, which then resulted in a 41.3%

reduction by 2000/01. This trend is expected to continue at least in the short-term, as the forecast domestic utilization for 2001/02 is 2.6-2.8 million. Similar to the ginning industry, levels of domestic utilization affect revenues, cost, and profits. Following the pattern of continuous decline in domestic levels of lint cotton utilization, the financial performance of the public spinning companies also worsened over the last three years. Once spinning capacity is idled for long periods, it can fall out of production permanently. Hence, the capacity of the domestic spinning industry to absorb large stocks of Egyptian lint has likely declined since 1997/98, when 4.6 mlk were spun (the highest level since 1993/94). Domestic spinners can probably use 3.0-3.5 mlk/year at this point. Domestic spinners can also use foreign lint, which is shorter-staple and cheaper, but in years of large domestic (Egyptian) lint supplies, the Holding Company discourages public spinners from using imported lint.

Since the beginning of privatization in 1994/95, the peak year for capacity utilization by domestic spinners was 4.6 million lk, which was achieved in 1997/98. Since then, capacity utilization, on which financial performance rests, has been declining. As the financial performance of public spinning and weaving companies worsened, it became harder and harder to privatize. Although privatization in this sector has been put completely on hold since 1999 and the Government has been hoping for improved market conditions to be able to privatize those companies, it seems that the opportunity for selling those companies was greater between 1995/96 and 1997/98. During those three years, domestic utilization of lint was high and financial performance was improving, even in loss-making companies. It would have been easier to expedite privatization then and exercise flexibility in valuations and sales conditions. Although the Government is more flexible now, it may, unfortunately, be a little too late. Public spinning and weaving companies have been going from bad to worse in the last few years, and the prospects of a dramatic improvement seem to be unlikely.

To make the previous observation clearer, it would be useful to examine the progress and development of the public companies that were candidates for privatization in 1997/98. At this time, Shebeen El-Kom S&W (Shebintex) and STIA were scheduled for privatization in 1998, while Dameitta, Delta, El-Seiouf, and Port-Said were scheduled for 1999. However, the Government halted the privatization program in the spinning and weaving industry awaiting future market improvement, as it did not get offers that matched or even came close to the companies' valuations. In September 2001, the Government again advertised Shebeen, STIA, Damietta, Port-Said, in addition to Dakahlia, for sale with new terms and facilities for investors to encourage privatization (see chapter 2).

The performance of these six or seven companies has generally worsened in the past three years. In the coming section, a closer look is taken at the characteristics and performance of a few of these companies.

5.2.1 Shebeen El-Kom Spinning & Weaving

It is one of the better performing spinning and weaving companies and has been a prime candidate for privatization since the beginning of the program in the spinning industry. Shebeen owns six mills with a total of 193,104 spindles and a total production of 13,600 tons in 2000/01. The company produces both ring-spun cotton yarn and open-end yarn with a capacity of 190,920

Table 5-3: Egyptian Cotton Supply and Utilization, 1980/81 to 2001/02

(all figures in metric kentars of lint)

Year	Area Planted	Beginning Stocks	Production	Imports	Total Supply	Exports	Domestic Utilization	Seed Requirements	Total Disappearance	Ending Stocks	Net Change in Stocks	Stocks to Use Ratio
	0	1	2	3	4=1+2+3	5	6	7 (see note)	8=5+6	Official 9	10=9-1	11=9/8
1980/81	1,244,526	2,944	10,574	0	13,518	3,297	6,524	707	9,821	4,475	1,531	46%
1981/82	1,178,420	4,475	9,985	0	14,460	3,871	5,839	640	9,710	4,217	(258)	43%
1982/83	1,065,841	4,217	9,208	0	13,425	3,607	5,163	599	8,770	3,738	(479)	43%
1983/84	998,277	3,738	8,004	0	11,742	3,332	5,307	590	8,639	2,009	(1,729)	23%
1984/85	983,560	2,009	7,984	616	10,609	3,040	5,219	649	8,259	1,615	(394)	20%
1985/86	1,081,009	1,615	8,706	591	10,912	2,960	5,710	633	8,670	2,102	487	24%
1986/87	1,054,860	2,102	8,055	296	10,453	2,427	5,631	588	8,058	1,470	(632)	18%
1987/88	979,793	1,470	7,021	609	9,100	1,756	5,411	608	7,167	1,275	(195)	18%
1988/89	1,013,960	1,275	6,211	613	8,099	1,200	5,074	603	6,274	809	(466)	13%
1989/90	1,005,533	809	5,766	1,138	7,713	859	4,953	596	5,812	527	(282)	9%
Mean 80s	1,060,578	2,465	8,151	386	11,003	2,635	5,483	621	8,118	2,224	(242)	27%
1990/91	993,047	527	5,919	1,028	7,474	360	5,556	511	5,916	763	236	13%
1991/92	851,283	763	5,826	1,260	7,849	333	5,323	504	5,656	820	57	14%
1992/93	840,296	820	7,147	730	8,697	361	5,681	531	6,042	2,644	1,824	44%
1993/94	884,310	2,644	8,314	0	10,958	2,349	5,424	433	7,773	3,193	549	41%
1994/95	721,443	3,193	5,095	800	9,088	1,334	4,061	426	5,395	1,071	(2,122)	20%
1995/96	710,207	1,071	4,831	452	6,354	381	4,108	553	4,489	1,598	527	36%
1996/97	920,911	1,598	6,914	48	8,560	929	4,024	516	4,953	3,604	2,006	73%
1997/98	859,255	3,604	6,841	110	10,555	1,390	4,622	473	6,012	4,167	563	69%
1998/99	788,812	4,167	4,594	31	8,792	2,170	3,734	387	5,904	2,919	(1,248)	49%
1999/00	645,417	2,919	4,654	472	8,045	2,095	2,882	311	4,977	1,999	(920)	40%

Mean 90s	821,498	2,131	6,014	493	8,637	1,170	4,542	464	5,712	2,278	147	40%
2000/01	518,319	1,999	4,201	575	6,775	1,670	2,708	439	4,378	1,075	(924)	25%
2001/02	731,095	1,075	6,313	372	7,760	1,614	2,700	420	4,314			

Source: *The Egyptian Cotton Gazette*, ALCOTEXA. Stocks and stock changes are calculated from the data, where beginning stocks in 1980/81 equal 2.944 mill. kentars.

Notes: a) Imports from 1990-91 to 1994-95 were only from the U.S. 1995-96 imports were largely from the U.S. (400,000 kentars) but also from Sudan and Syria.

There were no U.S. imports as of 1996-97; imports as of 1996/97 were from a variety of sources: Sudan, Syria, and Greece.

b) Seed requirements equal the area for the following season (column 0) times 60 kg./feddan. Using acid delinted seed, only 25 kg./fd. are required. Normal seeding falls in the 75-80 kg. range.

The seed requirement calculation for 2001/02 assumes that area planted in summer 2002 will be 700,000 feddans. Note that seed requirements are not lint utilization and hence do not enter into the calculation of total disappearance.

c) Net Change in Stocks = Ending Stocks - Beginning Stocks. A positive number indicates net additions to stocks. A number in parentheses indicates a net decline in stocks.

d) Domestic Utilization and Ending Stocks for 2001/02 are preliminary estimates. Imports are MVE estimates through the end of March 2002. Exports are commitments as of early April 2002.

Typically, actual shipments by the end of the export marketing season (usually September 2002) do not exceed commitments as of the end of March 2002.

e) Stocks to Use Ratio = Ending Stocks / Total Disappearance (domestic & foreign utilization).

spindles and 2,184 rotors and capacity utilization of 70% and 75%, respectively. Shebeen produces both cotton blends and 100% cotton yarn. Almost 50% of output is 100% cotton yarn, 25% is cotton blends, and 25% is 100% synthetic yarn. Shebeen used to export most of its output (70%); however, since the devaluation of the Egyptian pound, Shebeen has been more geared to the domestic market. Private weavers and ultimately manufacturers of ready-made garments have found it more profitable to use domestic lint since the devaluation took place. In 2000/01 Shebeen's exports reached a value of LE 70.3 million, while domestic sales stood at LE 90.8 million.

Shebeen is considered to be among the better-performing spinning companies and has been targeted for privatization for a few years. Shebeen has been valued by the HC at LE 500 million, which of course stood much higher than offers submitted by private investors. Although Shebeen has been making profits, its performance has been deteriorating and profits have decreased by 58.8% over the past three years. In addition, there are two main constraints facing its privatization, over-capacity and excess labor. Over the five years from 1996/97 to 2000/01, employment was reduced by 19% through regular and early retirement processes. Maintaining the high valuation of the company and waiting for improved market conditions since 1997/98 have not improved the privatization prospects of the company, since its financial status has actually declined since 1997/98. On the other hand, profits and equity figures rose between 1995/95 and 1997/98, presenting a good opportunity for private investment had the company been valued at a more reasonable level.

5.2.2 Delta Spinning & Weaving

The company has three spinning mills and one weaving mill. Delta produces ring and open-end yarns, with a spinning capacity of 95,432 spindles and capacity utilization of 70% for ring spinning (93,892 spindles) and 75% for open end spinning (1,540 rotors). As for weaving, Delta has 431 looms and uses 40% of its capacity. Traditionally, the company had exported most of its output (72% in 1997/98); however, due to the stiff competition from cheaper Asian yarn, exports have been declining and were projected to be 40% of output in 2000/01, with a value of LE 44.6 million and domestic sales of LE 49.7 million.

Employment in Delta decreased by 24% between 1995/96 and 2000/01, of which almost 12% left through early retirement. However, the company still has 1,500 redundant workers, or 28.6% of the total number of workers.

Delta was up for privatization in 1999, but no bids were received. It had been making profits between 1995/96 and 1997/98; however, it turned from generating a net income of almost LE 3 million to making losses of LE 38.6 million in 2000/01. Operating revenues decreased by 34% from 1998/99 to 2000/01 and net equity went from LE 16.9 million to a negative LE 20.4 million.

5.2.3 Damietta Spinning & Weaving

The company has one spinning mill and one weaving mill. It produces ring-spun yarn with a capacity of 89,680 spindles, of which 70% is utilized. The weaving mill has 192 looms and capacity utilization of 95%. Damietta also has a ready-made garment facility that produces both for export and domestic consumption; it is equipped with 145 sewing and finishing pieces of equipment. Damietta's financial

performance has not been positive throughout the period from 1995/96 to 2000/01; however, it has considerably deteriorated over the past three years. Employment in Damietta decreased by 8.2% over the past six years, but no workers left by taking early retirement.

5.3 SWRMC-HC Restructuring Efforts

Acknowledging the inefficiencies and burdens facing the affiliated textile companies and the difficulty in privatizing them given their current situation, the SWRMC-HC has taken several steps towards restructuring some ACs. Restructuring efforts included financial, technical, and labor restructuring.

5.3.1 Financial Restructuring

In the area of financial restructuring, the SWRMC-HC renegotiated bank debt on behalf of some the ACs in an attempt to reschedule and forgive part the long-term debts. In addition, the HC paid off a sum of LE 59.9 billion in June 2001 on behalf of 12 ACs to fulfill its obligation of repaying bank loans according to previous rescheduling arrangements with the creditors. However, the HC still owed the creditors a sum of LE 48 million in June 31, 2001.

The common elements in debt rescheduling negotiations undertaken by the HC include:

- Halting payments or reducing interest rates charged on these debts;
- Providing a grace period before resuming repayment to provide the HC with a chance for technical and labor restructuring of the indebted companies;
- Forgiving part of the current debt balance; and
- Repaying the remaining balance over a period of 5-10 years.

Negotiations with Misr Bank, Alexandria Bank, Commercial International Bank, and Egypt International Bank are currently underway regarding the exact terms and conditions of debt rescheduling and repayment.

In addition to negotiating debt rescheduling, the HC also provides working capital to the loss-making companies. The HC provided LE 99.1 million in 2000/01, of which LE 58 million are of the HC's own resources and the rest came from the restructuring fund. Part of the funds provided as working capital were used to import Syrian lint that was distributed to 13 affiliated companies.

5.3.2 Technical Restructuring

The HC has also implemented some measures for technical restructuring of the affiliated companies. Given the low capacity utilization (65% on average)¹⁸ in the textile companies, technical restructuring entailed the transfer of some idle capacities from some companies to other ACs that needed new machinery or production equipment. These measures saved the HC the costs of importing new equipment, estimated at LE 235 million; in addition, it would also raise the capacity utilization within the Holding Company.

¹⁸ This average was mentioned in the SWRMC-HC report for the FY 2000/01; however, some industry analysts think it is probably lower.

5.3.3 Labor Restructuring

In terms of labor restructuring, the HC has funded ERPs in 9 ACs during 2000/01, releasing a total of 5,933 workers at a total cost of LE 120.5 million and mean cost of LE 20,310/worker. During the same year, Shebeen el-Kom S&W released 517 workers at a cost of LE 11.5 million (LE 22,244/worker), funded with the company's own resources. For the progress of ERPs in public cotton-textile companies, see table 4-4. The HC also pays the salaries and annual entitlements of the staff of the distressed ACs, which amounted to LE 165.1 million in 2000/01. In order to upgrade the skills and capacities of the management of the ACs, the HC has trained a number of the ACs' marketing staff and managers to improve their companies' performance.

5.4 Status and Progress of Management Contracts

In addition to the SWRMC-HC efforts to restructure and improve the performance of public spinning & weaving companies, it is also seeking specialized management expertise to improve the performance of these companies. In 1999, the Spinning and Weaving Holding Company, in cooperation with the private banks and industry experts, established the Egyptian Company for Development of Textile Industry (EDTI). The mandate of EDTI is to coordinate the recruitment of international management companies to be in charge of diagnosing problems, restructuring operations, and managing the troubled textile companies. Currently, those management contracts are being negotiated and implemented in the following four companies.

5.4.1 Misr-Helwan Spinning & Weaving

In October 2000, the company was handed over to EDTI, which contracted the Indian management company, Delfa, to restructure the company and improve its performance. In March 2001, the follow-up committee set by SWRMC-HC concluded that the performance of the company had not improved in accordance with the planned performance results and indicators. However, the HC decided to provide the management company with another chance to improve its results. In July 2001, since no progress had been achieved, the HC terminated the contract with the Indian contractor.

5.4.2 Nasr-Mahala Spinning & Weaving

In July 2000, EDTI contracted the German firm Roland & Berger to manage Nasr Spinning & Weaving in Mahala. Six months later, the follow-up committee formed by the SWRMC-HC concluded that the performance of the management company was on target and they released their fees. In June 2001, the Committee concluded that the results that were targeted at that point had not been achieved and thus stopped the payments to Roland & Berger. The contractor is currently working on reaching the performance results stipulated in the management contract and would not receive any payment until those targets are met.

5.4.3 Shourbagui

In March 2001, the company was handed over to the management firm K&M, which is a consortium

of investors and management experts, to implement the restructuring program set for the company. Follow-up on the implementation of the contract is in progress.

5.4.4 Cairo for Artificial Silk

In January 2001, the American firm HB was contracted to study and design a plan to restructure the company. The study is currently being finalized.

Given the situation of companies operating under management contracts discussed above, it seems that the performance of these companies has not met expectations. Management contractors were expected to bring about a real change in management practices that would result in significant improvements in sales and financial performance. According to the *Al-Alam el-Youm* newspaper article of March 25, 2002, the Central Accounting Agency (CAA) has criticized the results of those three management contracts that are being implemented. The CAA described these contracts as lacking in penalties against the management companies in cases of unsatisfactory performance, especially that the costs of hiring these management consultants have amounted to LE 43 million so far.

5.5 Performance of Leased Companies

As mentioned earlier, the SWRMC-HC has leased units in four affiliated companies; however, the discussion in this section will focus on the two leases that deal with spinning and weaving units, namely DIP-Egypt, leasing a spinning mill from ESCO, and Menya el-Kamh factory of Sharkya Spinning & Weaving.

5.5.1 Menya El-Kamh Factory

An Egyptian entrepreneur who has experience in the weaving and knitting industry has leased three spinning units from Sharkeya Spinning & Weaving since July 1999. The factory lessee has added a tricot line to produce knitted cloth in Menya El-Kamh. The lease is for 5 years, and the entrepreneur is paying an annual rent of LE 9 million.

There is no financial information available about the operations of these leased units; however, it is indicative to note that their purchase¹⁹ of lint has decreased from the 1999/2000 level of 119,343 lk to 75,501 lk in 2000/01. This 36.7% decrease in lint purchase in one year indicates that the company's level of operations was reduced considerably and that it has been operating with significant idle capacity, which indicates that the company is not doing as well as it did the year before.

As for the labor situation, the SWRMC-HC was supposed to continue implementing early retirement in Sharkeya; however, the program was discontinued in the leased units. Thus, the work force has essentially stayed the same, around 1500, in addition to 60 workers who were added to run the new tricot line. Wages consistently increased over the past two years. Average annual wages increased

¹⁹ Data about lint purchases for leased and privatized companies were obtained from the SWRMC-HC and CATGO.

from LE 3,000 in June 1999 to 3,420 in June 2000, which constitutes a 14% increase in the annual wage bill. Wages increased again in June 2001 by 10% to reach LE 3,780. However, these figures may only refer to the workers' salaries and do not include other benefits and bonuses.

5.5.2 DIP-Egypt

The Korean company DIP leased a spinning mill from ESCO at the end of 1997. The lease is for 10 years against a fee of US\$ 750,000 per year, in addition to 3% of the net FOB value of export sales.

DIP cleaned up the factory it leased and brought in one cleaning unit, proper ventilation systems, and foreign expertise in management. DIP-Egypt seems to be doing well as its lint purchases have been steadily increasing over time. Since 1998/99 to 2000/01, lint purchase almost tripled from 29,284 to 82,129 (an increase of 180%), which reflects a successful operation.

In terms of labor, DIP-Egypt released most of the old workers, except for 180 workers who were more productive. In addition, it hired 420 new workers with specific skills that were needed in the new operation. Annual average wages have risen by 20% from LE 4,200 in 1999 to LE 5,040 in 2001. Again, these figures may only refer to the workers salaries and do not include other benefits and bonuses.

5.6 Performance of Privatized Spinning Companies

Trying to assess the financial performance of privatized textile companies can prove to be futile. There is very little data available and even less access to it. Only 3 companies have been privatized and the financial data that can be obtained to compare post-privatization performance with pre-privatization performance is very scarce. For example, The MVE Unit could not obtain any financial information about Alexandria S&W or any recent data for Unirab and KABO. The financial data for these companies are supposed to be in the public domain, since their shares are traded on the stock market. In addition, the quality of the financial data available cannot be guaranteed in terms of accuracy or consistency. The data is very patchy and comes from different sources, which renders making definite conclusions about the financial performance of privatized companies based on the available financial data very difficult.

Having commented on the validity and availability of financial data, it is positive to note that net equity for the two privatized companies, for which data is available, has increased by an average of 13% within one year of privatization. Although the earnings before interest and taxes (EBIT) and net income witnessed an average decline of 68.3% and 55.5% respectively, this can be attributed to the reduction in the scale of operations in the two companies after privatization.

With regards to lint purchases, UNIRAB has witnessed some fluctuations in their lint purchases. UNIRAB increased its lint purchases by 38.7% from 282,150 lk in 1998/99 to be 391,377 lk in 1999/2000. However, their level of operations decreased again by almost the same amount (34.6%) to stand at 255,789 lk in 2000/01.

For Alexandria Spinning and Weaving, operations, as indicated by lint purchases, have increased by 13.7% from 1998/99 to 2000/01, however most of this increase took place in the 2000/01 season. Alexandria's lint purchase increased slightly by 2.4% from 1998/99 to 1999/2000 and the following season it increased by 11% to reach 273,684 lk in 2000/01. It is also reported that the average yarn count increased from NE 27-28 to NE 34-35 by May 2000.

Employment in the three privatized textile companies witnessed a slight decrease of 5.2% since privatization until June 2001, as shown in table 4-1. Although the average wages reported after privatization are considerably lower than those reported before privatization, the consistency of these figures cannot be assured. The post-privatization wage data were obtained through MVE surveys and they refer to workers' salaries only and do not include any bonuses or benefits, which may have resulted in the reported decrease in average wages after privatization. In fact, the privatized spinning companies that were surveyed, UNIRAB and Alexandria Spinning and Weaving, reported an increase in average wages between 1999 and 2001. UNIRAB reported a 12% increase in average annual wages from LE 4,020 in 1999 to LE 4,500 in 2001. Similarly, Alexandria Spinning and Weaving reported raising average wages by 20%, from LE 3,000 to LE 3,600 over the same period.

6. CONCLUDING REMARKS & POLICY IMPLICATIONS

It seems that over the six years from 1995/96 to 2000/01 the financial performance of public ginning and spinning companies deteriorated, particularly between 1998/99 and 2000/01. In fact, financial performance significantly improved for many public spinning companies during the first half of the period of the study, i.e. from 1995/96 to 1997/98. Therefore, it seems that the privatization program should have been expedited during the first half of the period, when performance was improving. Instead, the GOE was hoping for improved market conditions to privatize public textile companies.

The GOE took several steps towards liberalizing and privatizing this subsector; however, a more comprehensive approach to liberalization is still needed. Despite the government's efforts to liberalize the cotton subsector, public sector textile companies are still struggling with high prices for cotton, which is the main input of production, amounting to 60% of the production costs. In addition, public textile companies are bound by the government wage and bonus system that entitles workers to an annual raise of 15% regardless of the company's sales and revenues. Thus public sector companies are heavily burdened by rising costs and decreasing revenues. It is very difficult to privatize the public textile companies under such operating conditions.

Encouraging imports of cheaper shorter-staple lint is one way to reduce spinners' input costs in Egypt. To this point, public spinning companies have obtained imported lint only through the Holding Company. If the Holding Company is concerned about burgeoning lint stocks and excessive carryover from one year to the next, it will not import shorter-staple lint, even if it is priced far lower than the cheapest Egyptian varieties, Gizas 80/83.

The stagnation in the privatization program in the textile industry is in part due to the overall unfavorable market conditions; however, it is mostly due to the chronic problems that are plaguing the public sector textile companies. These include excess labor, large accumulated losses, large bank debts, and most of all unmarketable output. High prices for Egyptian lint are a major handicap for public sector textile companies in the domestic market. After the devaluation, public sector companies have been able to capture greater domestic market share; however, they are still facing stiff competition in the export market. High raw material costs for Egyptian lint, redundant labor, and poor quality yarn hurt the international competitiveness of domestic spinners, particularly public ones.

Improving the quality of yarn products is key if public sector spinning and textile companies were to succeed in reducing their large inventories and improving their financial situation. Some observers argue that many public sector spinners spin too wide and too low a range of yarn counts and should narrow the range and, if possible, increase the average count. Other observers feel that most public spinners should concentrate on spinning low counts of yarn using cheaper, shorter-staple imported lint. Whatever strategy is chosen, it appears unlikely that significant funding will be made available for technical restructuring, particularly upgrading plant and machinery. Without such upgrades, the long-run validity of many public spinners can be called into serious question.

A comprehensive plan is needed to restructure the cotton and textile subsector. Without dealing with

the root of the problem, it will be difficult to privatize public textile companies. Note that CSPP and the High Cotton Council are leading a cotton subsector strategy exercise that may attempt to define, more accurately, public spinning industry requirements. This strategy exercise is not, however, intended to address privatization issues. Nevertheless, developing a comprehensive strategy to deal with the subsector's problems and the underlying issues that hinder privatization would have a positive impact on encouraging private participation in the cotton and textile subsector, which can boost the privatization program of public textile companies.

To facilitate the sale of ginning capacity, a necessary first step is to deal with the excess capacity in the industry. The GOE should start by implementing the unpublished Holding Company plan to close 13 public gins to reduce capacity to a more optimum level. This would likely allow ginners to charge higher rates, which could make ginning more profitable. Once made more profitable, public ginning companies would become more attractive privatization prospects. Higher returns would also allow ginners to invest more in improved ginning, cleaning and baling techniques.

Finally, the GOE moved in the right direction when it adopted the new strategy to privatize the loss-making companies. However, more aggressive unbundling of public companies may be required to encourage their sale in the near future until a more comprehensive plan to restructure the subsector is adopted.

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